

Massachusetts

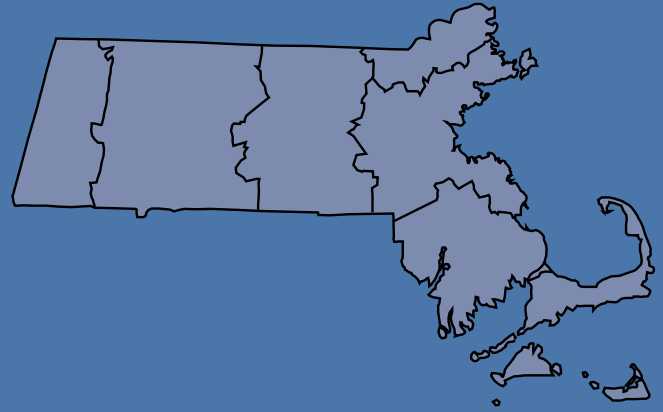
toward a new prosperity

building regional competitiveness across the commonwealth



executive summary

toward a new prosperity: building regional competitiveness across the commonwealth



Massachusetts has undergone a profound economic transition over the past ten years. As our old manufacturing base lost much of its competitive edge, we adapted – by necessity as much as by choice – to a “New Economy” characterized by knowledge-intensive production, high-tech innovation, and global trading.

This “New Economy” is about consistent and fundamental changes that have permanently altered the way in which prosperity is created. Rapidly advancing technologies are transforming industries, firms, and the very nature of work itself. In this environment, ideas and knowledge increasingly determine competitive advantage. Markets and competition are increasingly global in scope.

These new economic conditions present Massachusetts with a new set of challenges. Continued progress will require well-targeted educational and infrastructure investments. While many parts of the Commonwealth prospered during the 1990s, not all regions and citizens have adapted successfully to these changing economic conditions. Keeping the Massachusetts economy vibrant requires a more active role for State government in promoting economic development. This Report proposes a strategic framework for the economic development of the Commonwealth designed to meet the challenges of the “New Economy:”

Part I, summarized below, examines the new dynamics of the Massachusetts economy and advocates the benefits of a shared vision for economic development. It presents a strategic framework

for policy development by highlighting competitive imperatives that must be addressed to ensure our economic future.

Part II profiles the seven distinct economic regions of the Commonwealth (see map above). Economic development is typically a local and regional process. This Report recognizes that successful strategies for the Pioneer Valley and the Southeast region will likely require significantly different initiatives. These profiles provide an overview of recent economic changes in each region and identify the opportunities and challenges they face.

Part III outlines policy options that are designed to promote a healthy debate around the economic future of the Commonwealth and its regions.

The New Dynamics of the Massachusetts Knowledge-Based Economy

The Commonwealth’s shift from manufacturing to a knowledge-based economy has involved a dramatic transformation. Considering our difficult economic position in the early 1990s, the performance of the Massachusetts economy in the years since has been remarkable. However, significant challenges remain.

As described in Part I of this Report, four factors have driven our prosperity in this evolving economy. Deficits in these areas have likewise limited our success:

• **Factor 1: An increasing reliance on *knowledge workers***

The distinguishing characteristic of the Commonwealth's new economy is the high educational attainment of our workforce. Thirty-three percent of our workers have college degrees, a figure more than eight percentage points above the national average. Our relative advantage in graduate and professional degrees is even greater. This differential, which emerged over the past twenty-five years, is closely tied to the growth of our knowledge-based export sector.

During the 1990s, workers lacking a college degree experienced little income growth. In fact, after controlling for inflation, many of our less well-educated workers actually saw their wages decline during the 1990s. Further, according to a study by MassINC, fully one third of our workers still lack the skills needed to compute or communicate at a basic level. Providing workers with the skills required to succeed in the knowledge economy present a critical economic development challenge.

• **Factor 2: The critical importance of vibrant *industry clusters* that rely on *networked entrepreneurship* to innovate, increase productivity, and compete successfully**

The Massachusetts export sector – the firms that sell goods and services outside the State and bring income into the Commonwealth – is increasingly composed of small or mid-sized firms organized into “*industry clusters*.” Small or less hierarchical organizations are often best suited to capture the judgment, creativity, and innovative energy of knowledge workers. Firms in the same industry cluster in a specific geographic area tend to take advantage of local pools of specialized workers, suppliers, financiers, marketers, and infrastructure resources that enhance their competitive position. Our export sector can be grouped into six broad clusters, the first four of which rely primarily on knowledge workers:

► **Information Technology**

Computer and communications equipment, software, and services

► **Health Care**

Health services, medical equipment and devices, and biotechnology and pharmaceuticals

► **Financial Services**

Banking, insurance carriers, and securities and exchange services

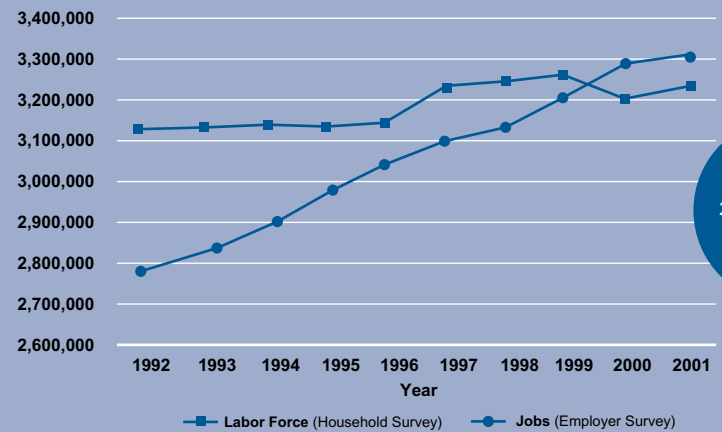
► **Knowledge Creation**

A broad cluster that supports the creation of knowledge based assets and includes higher education, printing and publishing, and legal, engineering, management, and R&D services

► **Traditional Manufacturing**

Paper, rubber and plastics, fabricated metals, apparel and textiles, industrial machinery (except those included under information technology), instruments (except information technology or health care), and all other manufacturing industries

Number of jobs exceeds labor force by 2000



► **Travel and Tourism**

Combines retail establishments and hotel and travel operators that serve business and leisure travelers. These firms provide experiences enjoyed by increasing numbers of visitors from outside the region

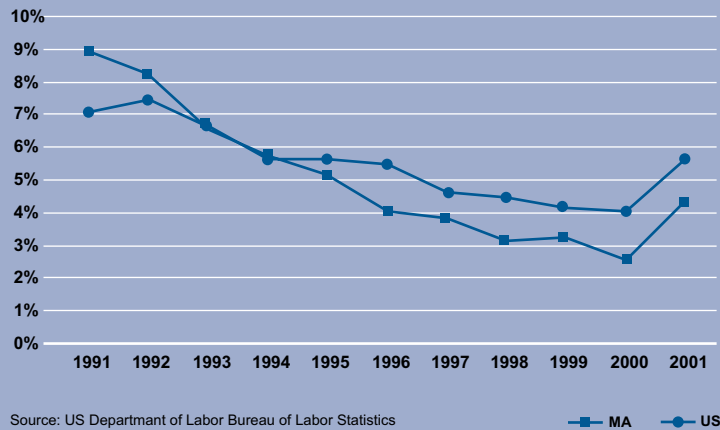
Firms in our four knowledge-based clusters continually access resources through *networked entrepreneurship*. They use contacts and relationships to arrange technical transfers and partnerships with universities and other enterprises; to develop investment relationships with venture capitalists, institutional investors, and major corporations and; to fashion marketing agreements and other liaisons that are the key competitive tools in rapidly-shifting knowledge-based economies.

A major challenge to their success is the growing strength of the states that Massachusetts regularly competes with in academic research and in winning federal R&D funds. In our Traditional Manufacturing and Travel and Tourism clusters, organizing vehicles for networked entrepreneurship has been difficult and a major obstacle to their economic progress. Developing such vehicles is a major challenge going forward.

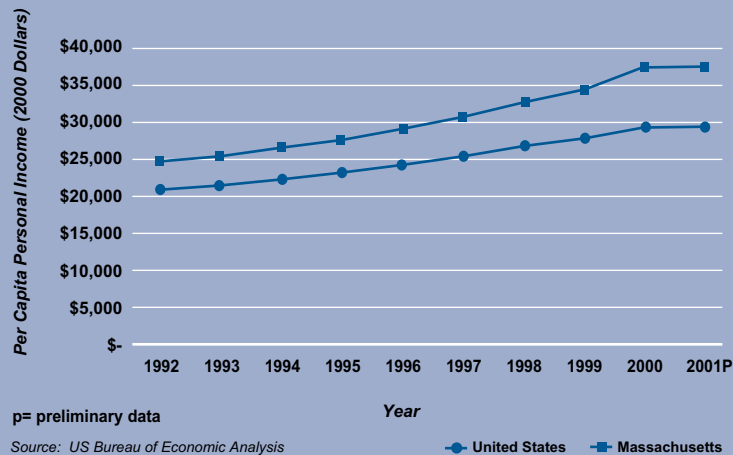
• **Factor 3: Accessing the great commercial opportunities created by *global trade***

The expansion of international markets has created enormous opportunities for our knowledge-based clusters. Exports, overseas sales by affiliates, and international financings and technology transfers have become fundamental components of economic success. As the Internet becomes a more potent factor in reducing the importance of distance, global trading opportunities will emerge for many more firms. The challenge moving forward is to assure easy and affordable access to the Internet, to manage the volatility generated by the international economy, and to swiftly and effectively respond to the security threats raised by the enemies of globalization.

Unemployment rates show steady declines...



...and real per capita income leads the national average



• Factor 4: The growing importance of *place* as a competitive factor

While we work in industry clusters that increasingly compete in the global marketplace, we still live in local communities. The quality of life in our cities and towns has become a critical component of the “income” our economy generates. Since knowledge workers are increasingly mobile and live where they choose, maintaining an affordable cost of living and a high quality of life in the Commonwealth will be critical to our future competitive success.

Economic growth in the 1990s was accompanied by a sharp spike in housing costs in most regions of the Commonwealth. It also generated a significant amount of sprawl, which increased pollution and congestion and weakened many communities. Our challenge, then, is for economic development to strengthen, not diminish, the quality of life in the Commonwealth.

A Shared Vision for the Commonwealth

We propose a vision for economic development that targets a high quality of life for the citizens of the Commonwealth. Achieving this vision is the objective of future economic development efforts. Our proposed vision includes:

Traditional economic development goals

- ▶ High and rising real incomes
- ▶ Job growth

A shared prosperity

- ▶ Strong regional and community-based economies
- ▶ Broad economic opportunity

A prosperity that is sustainable and that strengthens our environmental and civic objectives

- ▶ Environmental sustainability
- ▶ Healthy and safe citizens
- ▶ A strong civic culture

The Commonwealth has done well over the past decade on some of these measures and not so well on others. At the beginning of the 1990s, our economy was clearly in a precarious position. The decade began with sharp declines in our leading minicomputer and defense industries, the collapse of one of our largest banks, and a prolonged credit crunch.

Our recovery since then has been quite strong (see figures, on left). Per capita income has risen sharply and Massachusetts has enjoyed vigorous job growth and a sharp drop in unemployment. The Commonwealth also made substantial gains in environmental management. This prosperity, however, has not been shared throughout the Commonwealth or by all members of society (see figures, on right).

A Strategic Framework for Economic Development

Now and in the future, the Commonwealth must build on its strengths, address its weaknesses, and promote a high quality of life for all of its residents. This Report proposes a strategic framework composed of six competitive imperatives. We believe that, in addressing these imperatives, the Commonwealth can achieve our proposed vision for economic development. The Report also offers policy options that are designed to promote and inform a healthy debate around the economic future of the Commonwealth and its regions. This debate should focus on the how to address the following competitive imperatives:

• Improve the business climate to support all industry clusters

Vibrant and innovative export industry clusters are the primary engines of economic growth today. In traditional, as well as knowledge-based sectors of the economy, such clusters support and motivate innovation, which enhances our overall competitive position. We need to support the development of strong export clusters in all regions of the Commonwealth.

- **Support entrepreneurship and innovation**

Strengthening the Commonwealth's innovation infrastructure will give entrepreneurs better access to the resources they need by improving channels of communication and coordination. We must take aggressive action to reduce disparities in business resources that support innovation and improve access to capital in all regions of the Commonwealth.

- **Prepare the workforce of the 21st century**

A well-educated and highly skilled workforce is essential to competitiveness in today's economy. Our firms must have access to talent they need to succeed and our workers must have skills that match the opportunities emerging in this constantly evolving competitive marketplace.

- **Build the information infrastructure of the 21st century**

The Commonwealth has made enormous transportation investments, most visibly in roads, bridges, and air transportation. The rise of the information economy requires a renewed focus on our information infrastructure. The Commonwealth must facilitate improved access to affordable broadband options throughout the Commonwealth.

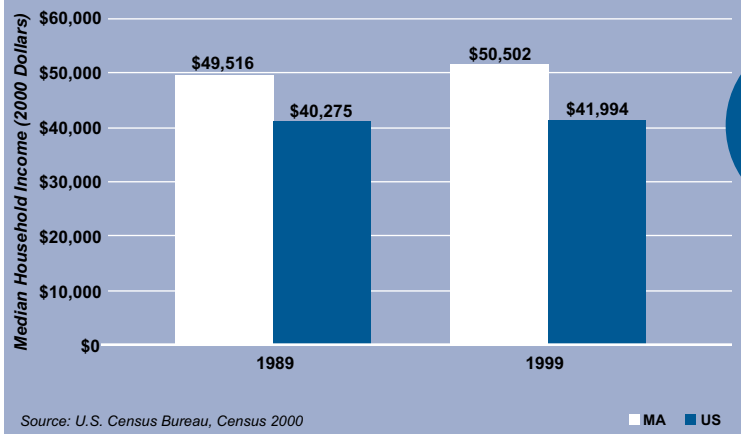
- **Ensure that economic growth is compatible with community and environment**

Housing affordability is fundamental to accommodating a growing economy. At the same time, we must be a leader in implementing sustainable growth strategies that ensure a high quality of life in our cities and towns.

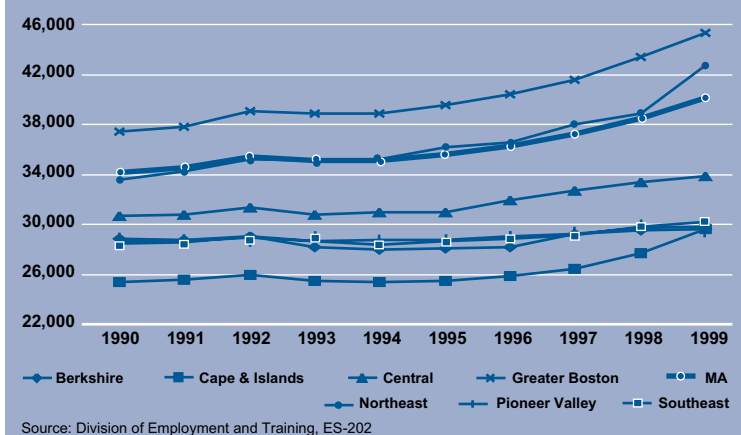
- **Improve the outcomes of government action**

Massachusetts is widely perceived as having significantly improved its business climate over the past decade. We must continue to reduce regulatory burdens and provide more coordinated services and resources to businesses—particularly small businesses. State government must also help collaborate with the private sector and the federal government to effectively respond to the emerging terrorism threats. State government must also maintain confidence in basic infrastructure linking global production, communication, and transportation networks.

Real median household income is flat...



...and real average wages vary by region



choosing to compete: building an environment to support knowledge-based innovation and growth

Massachusetts has undergone a profound economic transition over the past twenty years. Our old manufacturing base steadily lost much of its competitive edge. By necessity as much as by choice, we adapted to the “New Economy” of knowledge-intensive production, high-tech innovation, and global trading. Massachusetts had long been a center of science and technology. Only over the last two decades, however, has knowledge-based innovation become the foundation of our overall economic well-being.¹

In recent years, there has been much discussion of the “New Economy.” Recent experience shows that it is not simply about Internet startups, which flourished in the late 1990s but failed in the early years of the new century. Rather, the “New Economy” is about consistent and fundamental changes that have permanently altered the way in which wealth is created. Rapidly advancing technologies are transforming industries, firms, and the nature of work. In this environment, ideas and knowledge increasingly determine competitive advantage and we are still adapting to these changes. Markets and competition are increasingly global in scope. As such, the transition to the “New Economy” has implications for industry, our workforce, and government.

Today, Massachusetts is widely acknowledged as a leader in the new, knowledge-based economy.² This orientation, however, raises a new set of challenges for the Commonwealth. Our State economy has been quite volatile, and not all regions and citizens

have adapted successfully. Continued progress requires well-targeted educational and infrastructure investments and a more active role for State government in the economic development process.

This Report proposes strategic priorities and policy options that are designed to promote and inform a healthy debate around the economic future of the Commonwealth and its regions. It highlights a strategic framework – supported by data and information – that can be used by public and private sector leaders to develop policies that target limited resources to areas of greatest need.

Our intent is to spark a spirited and constructive conversation on the role of State government and key priorities going forward.

¹ Lynn E. Browne and Steven Sass, “The Transition from a Mill-based to a Knowledge-based Economy: New England, 1940-2000,” Peter Temin, ed., *Engines of Enterprise: An Economic History of New England*. (Cambridge: Harvard University Press, 2000).

² Three organizations placed the Commonwealth at the top of their most recent “New Economy Index” –the Progressive Policy Institute for 1999, the Meta Group for 2000, and the Milken Institute for 2001. See the Progressive Policy Institute Web site, <http://neweconomyindex.org/States/massachusetts.html>, the Meta Group, *Metricnet States New E-Economy Index 2000* (Stamford CT, 2001), and Milken Institute Web site, <http://www.milkeninstitute.org/poe.cfm?point=economy>.

The Great Transition

Since the Industrial Revolution of the early nineteenth century, Massachusetts earned its keep by selling manufactured goods to the U.S. market. Blue-collar workers, in multi-story brick factories, in industrial cities and towns found in nearly every corner of the Commonwealth, generated the bulk of the income flowing into the State. This manufacturing economy grew up along rushing streams once needed for power. It extended along rail lines connecting its mills and machine shops to the national market. As recently as 1984, manufacturing establishments employed 675,000 workers, about 24 percent of our workforce. Manufacturing, however, has since shed over 250,000 jobs and now accounts for just under 13 percent of employment in the Commonwealth.³

As manufacturing receded, a new knowledge-based economy emerged. The services sector, which includes universities, hospitals, software developers, and management consulting firms (among many other enterprises) added 470,000 jobs since 1984 and jumped from 26 to 37 percent of total employment. Finance, insurance, and real estate, which includes money managers, mutual fund distributors, and venture capitalists added 50,000 jobs and went from 6.3 to 6.9 percent of employment (see Figure 1-1). Even in manufacturing, our workforce has changed. Many Massachusetts firms have automated, eliminated, or outsourced a great deal of shop-floor production and now employ, proportionately, far more managers, engineers, and technicians.⁴

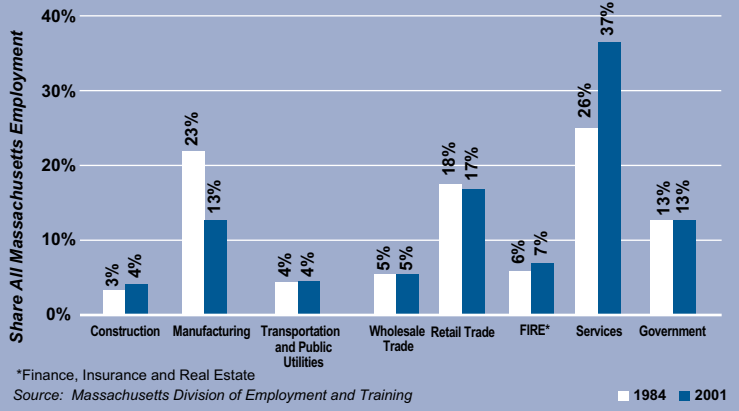
A new “built” landscape has emerged to accommodate this expansion of the knowledge-based economy. Modern office towers, R&D facilities, and up-scale housing developments and retail malls have superceded the red brick factory buildings, commercial blocks, and wood-frame three-deckers. Rather than locate in our smaller industrial cities and towns scattered across the Commonwealth, these new buildings sprang up in downtown metropolitan areas – primarily in Boston, and along our major highways – where people and ideas can move rapidly from one place to another.

Such a profound transition inevitably has far-reaching implications for the role of State government. It took a major economic downturn, however, for these new responsibilities to come clearly into focus.

That downturn began at the end of 1989, and ran through the early years of the 1990s. The crash of a speculative real estate and construction boom, fueled by the need to build-out space for the new knowledge-based economy, was the initial blow. It led to the collapse of one of our largest banks and a credit crunch that seriously impaired our ability to regroup. More fundamental were the sharp declines in output and employment in defense and computers – the two leading manufacturing industries through much of

figure 1-1

The shift from manufacturing to knowledge-based services employment by industry: 1984 and 2001



the post-World War II era. When combined with the effects of the relatively mild 1990-91 national recession, eleven percent of all jobs in the Commonwealth disappeared between 1989 and 1992⁵ (see figure 1-2 on next page).

The most powerful shock came from the rapid decline of the Massachusetts computer industry. In time, the national recession and the local crisis in real estate and banking would pass. Our problems in defense reflected a nationwide cut in military spending that came with the end of the Cold War. But the troubles in computers were different. Here we lost a decisive head-to-head competitive struggle with Silicon Valley. The PC, developed by Intel, Microsoft, Apple, and other Silicon Valley firms, clearly stole the thunder from the Commonwealth’s vaunted minicomputer manufacturers.

AnnaLee Saxenian and her influential book, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*,⁶ expressed a widely held anxiety that this defeat reflected a significant competitive flaw. The underlying fear was that high-tech flourished far better in California’s fluid, open culture with its abundance of small inter-networked firms, than in traditional and hierarchical Massachusetts corporations. In high-tech markets, the winner generally captures the bulk of the profits. So Saxenian argued that the Commonwealth would forever lag this younger and hipper rival. And by the early 1990s, high-tech business confidence in the future of the Massachusetts economy had all but vanished (See Figure 1-3 on next page.)

³ Massachusetts Division of Employment and Training, <http://www.detma.org/lmi/dataprog.htm>.

⁴ Ibid.

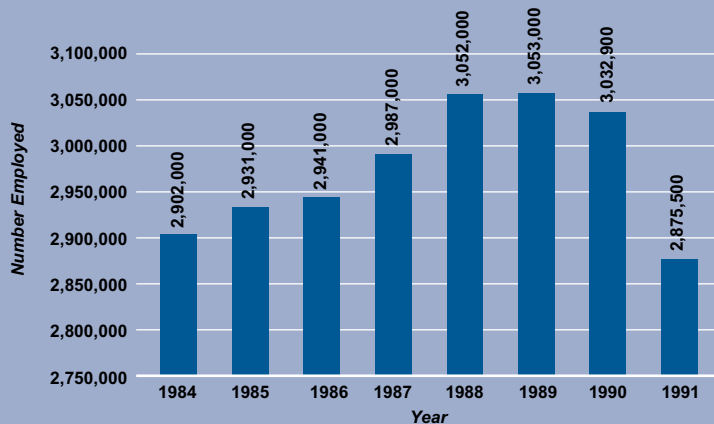
⁵ Ibid.

⁶ (Cambridge: Harvard University Press, 1994).

In the midst of this transition, the recession of the early 1990s sent a shockwave through the Commonwealth:

figure 1-2

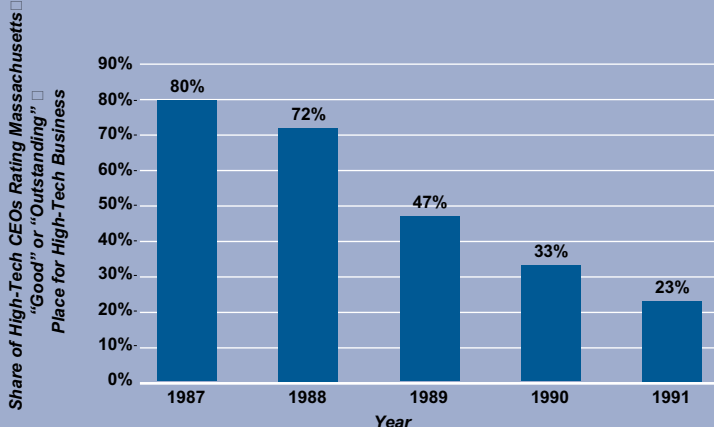
Employment fell rapidly...



Source: Massachusetts Division of Employment and Training

figure 1-3

...and high-tech business confidence plummeted



Source: Mass High Technology Council, as reported by the Mass Technology Collaborative

Choosing to Compete

The government of the Commonwealth, under the leadership of Governor Weld, responded by launching a major strategic review of the Massachusetts economy and its own economic development initiatives. The Massachusetts Executive Office of Economic Affairs and The University of Massachusetts assumed leadership of this initiative. They reached out to business leaders and intellectual resources across the Commonwealth. They involved academics and experts in public agencies and solicited white papers on key policy issues such as workforce development and land-use.⁷ They also organized regional meetings to identify opportunities and challenges in the distinct regional economies of the Commonwealth.

Professor Michael Porter, of the Harvard Business School, emerged as an important advisor. His recent work, *The Competitive Advantage of Nations*, offered a powerful framework for addressing the challenges faced by the Commonwealth. Porter saw the continued expansion of the global marketplace as steadily intensifying competitive pressures on existing industries. Porter's key lever of success was constant innovation. And innovation flourished best, he observed, in vibrant, geographically concentrated "industry clusters." (see sidebar *Michael Porter's Cluster Theory of Competitiveness*, on right)

Porter and his colleagues at the Monitor Group supported these conclusions with major reports on *The Competitive Advantage of Massachusetts*⁸ and *Toward a Shared Economic Vision for Massachusetts*.⁹ They identified the Commonwealth's universities as critical economic assets, knowledge-based activities as the new foundation of the State's economy, and knowledge-based industry clusters as the critical engines of competitive success. The battle between the Massachusetts and Silicon Valley-based computer clusters was thus a harbinger of things to come. But unlike Saxenian and other skeptics, Porter saw Massachusetts as well positioned to compete in such high-value knowledge-based activities. The remaining task for the Commonwealth was to develop a strategy that leveraged our critical advantages, shored up our deficits, and created an infrastructure to support adaptive, innovative enterprises.

The Executive Office of Economic Affairs and the University of Massachusetts presented such a strategy in their 1993 report *Choosing to Compete: A Strategy for Job Creation and Economic Development*. The document clearly identified the State's need for a knowledge-based economic strategy, and laid out an agenda for strengthening the Commonwealth's economic position. The Report followed a carefully structured approach for defining the Commonwealth's new role. It defined:

Our economic development objectives

Choosing to Compete highlighted five key economic objectives:

- High and rising real incomes (incomes adjusted for inflation)
- Job growth
- Strong regional economies within the Commonwealth
- Broad economic opportunity
- A high quality of life

Our strengths, weaknesses, and opportunities

Choosing to Compete recognized that defense and minicomputers, the old drivers of the Massachusetts economy, would not bounce back with the return of prosperity. The Commonwealth's distinctive economic strength still lay in our great universities, highly educated workforce, and vigorous entrepreneurial tradition. So the central question, as *Choosing to Compete* put it:

"...was whether the high-tech boom has ended in Massachusetts, or merely stumbled badly. If the high tech boom is limited to a group of industries focused on minicomputers and defense, then the answer is probably the

former. However, it is also possible that the minicomputer- and defense-dominated high tech boom was merely part of a larger and deeper phenomenon – that is, the successful application of advanced research to an ever-broadening array of commercial opportunities and the creation of an environment supportive of rapid, technologically-based innovation.”¹⁰

The answer was clearly the latter, and it was this “array of commercial opportunities” that held out the best prospects for our future.

Our initiatives that promised the greatest incremental value

Choosing to Compete proposed a new economic development agenda for State government centered on “the creation of an environment supportive of rapid, technologically-based innovation.” Thus, the State remains responsible for our physical infrastructure. Yet, roads and airports that move people and communications links that move information would now often take precedence over transportation facilities that move manufactured goods. An “environment supportive of rapid, technologically-based innovation” also requires a responsive education and training system. Innovative enterprises need skilled employees; workers need the high-paying jobs these employers offer; and the State has a clear role to play in bridging this gap with its community and State colleges, universities, and other education and training programs. The Commonwealth also had to overcome a legacy of high taxes, ineffective regulation of important economic programs, and a general attitude of suspicion toward business. The realities of the global competitive marketplace required a stable fiscal environment, a high level of government expertise and efficiency, and a far more cooperative relationship with business.

Our specific recommendations, clear objectives, and performance measures

Choosing to Compete then presented a series of proposals to implement this new strategy. These included reforms of the unemployment compensation system, recommendations on coordinating our education, research, and training facilities with the needs of workers and businesses, suggestions for streamlining regulatory and permitting processes, and initiatives for delivering State services and economic development assistance more effectively. *Choosing to Compete* also emphasized regional differences and the need for economic development initiatives to be sensitive to local conditions (see sidebar, *The Seven Economies of the Commonwealth, Each With Distinct Opportunities and Challenges* at end of chapter).

The publication of *Choosing to Compete* and the planning process that preceded it significantly improved the dynamics of the political debate in the Commonwealth. Instead of struggling over the division of the State’s dwindling resources – which is all too common in difficult economic times – the effort framed “an inquiry into how those resources might be better invested in our future.”¹⁰ Perhaps most importantly, it clearly identified a new role for State government as an active participant in the new knowledge-based economy.

Michael Porter’s “Cluster Theory of Competitiveness.”

Michael Porter, of the Harvard Business School, developed a “cluster” theory of economic competitiveness that had a major impact on policy-making in the Commonwealth. In the *Competitive Advantage of Nations*, and later in the *Competitive Advantage of Massachusetts*, Porter argued that no State could compete effectively in all export industries. Rather, States must focus on a few key “clusters,” or “geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field.”¹³ Porter’s conception of “cluster” cuts across traditional industry classifications to include an industry’s suppliers, specialized infrastructure providers, and supporting governmental institutions, research universities, and trade associations. Prominent examples include pharmaceuticals in New Jersey, films in Hollywood, and wine in certain regions in California.

Clusters succeed because they are big enough to support a broad array of specialized suppliers. A large number of firms also generates diversity and the competitive pressures needed to build critical innovative capacity. Porter’s model identifies four issues that largely determine a cluster’s overall innovative and competitive potential:

Factor conditions - The availability of workers, capital, and physical, scientific, and technological infrastructure customized to the needs of the particular industry.

Demand conditions - The presence of a sophisticated local customer base that provides the innovative push needed to develop high-value products responsive to customer needs.

Context for firm strategy and rivalry- A system of rules, incentives, and competitive pressures that protect intellectual property, encourage investment, and spur firms to upgrade their operations.

Related and supporting industries- A rich network of suppliers, specialized professional and technical support firms, and industry associations that lower transaction costs, promote the exchange of ideas, and create flexible outsourcing opportunities.

⁷ Among the studies that contributed to the strategic review of the early 1990s were “overall economic development plans” (OEDPs) prepared by a number of regional planning agencies for the federal Economic Development Administration; “Workforce Development Policy Blueprints” written for the MassJobs Council by sixteen regional employment boards; regional land use strategies, such as the *Regional Policy Plan* for Cape Cod and *MetroPlan 2000* for Boston; and special studies, such as *The High Skills Path for Southeastern Massachusetts*. For a full listing of the sources and participants, see *Choosing to Compete*, pp.186-192.

⁸ Cambridge: Monitor Corporation, 1991.

⁹ Cambridge: Monitor Corporation, 1992.

¹⁰ *Choosing to Compete*, p.13.

¹³ Institute for Strategy and Competitiveness, Harvard Business School, <http://www.isc.hbs.edu/econclusters.htm>

A re-focused Massachusetts economy roared back after the bitter years of the 1990s:

figure 1-4

Employment surged...

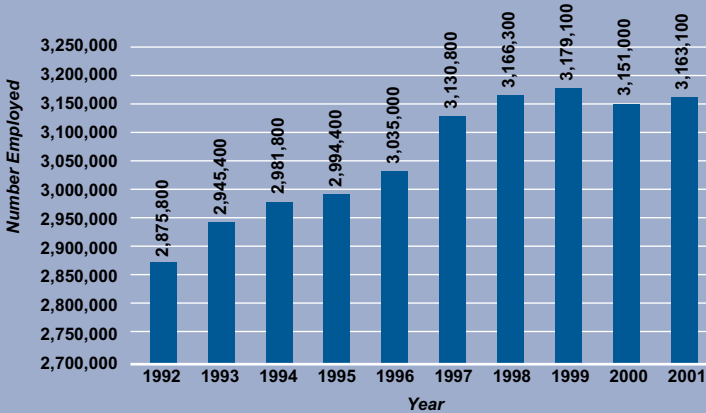
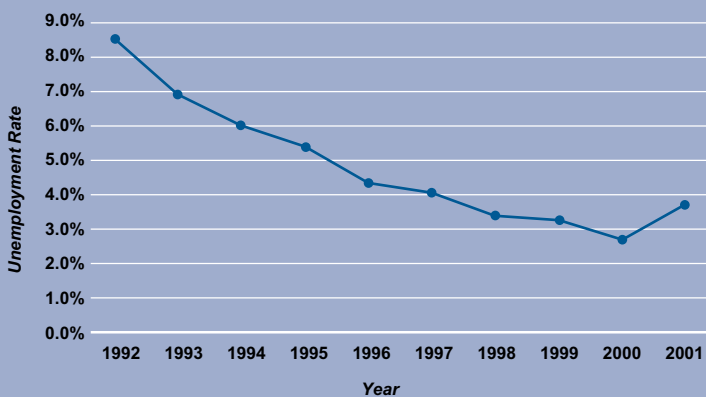


figure 1-5

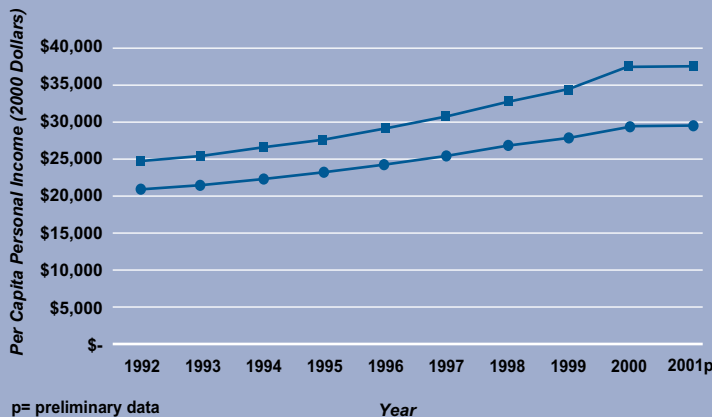
Unemployment plummeted...



Source: Massachusetts Division of Employment & Training

figure 1-6

...and real income per capita rose smartly



p= preliminary data

Source: US Bureau of Economic Analysis

United States Massachusetts

A Revitalized Massachusetts Economy

Given the Commonwealth's difficult economic position in the early 1990s, what followed was a remarkable economic resurgence. Unemployment fell to just 2 percent of the workforce by the end of 2000, far lower than the national 3.7 percent rate. Employment had grown at an annual average rate of 2.3 percent since the end of 1993, essentially the same as the nation's 2.4 percent rate. And per-capita real income grew more briskly in Massachusetts than in the nation as a whole. Not all aspects of the economy performed as well, however. Median household income remained at its 1993 level and both population and labor force growth have been extremely sluggish.¹¹ Taken as a whole, however, the rebound is clearly impressive (see figures 1-4, 1-5 and 1-6).

The primary credit for the 1993-2000 expansion lies within the private sector, as the people of Massachusetts found powerful new ways to create value in the marketplace. In the critical high-tech sector, our gritty entrepreneurs created new firms. Our resourceful engineers, managers, technicians, and production workers developed new skills and even learned new professions. Together, they developed what have essentially become new leading industries in communications and networking, enterprise software and services, biotechnology, and pharmaceuticals. Firms in traditional industries such as tourism, investment management, health care, and consulting also targeted new customers and found new ways to serve old ones.

The State's new initiatives have also contributed to our success. The Commonwealth's education and training programs, research institutions, and regulatory and permitting agencies have become more responsive to the needs of entrepreneurs and workers alike. As a result, there has been a sharp improvement in the business climate of the Commonwealth (see figure 1-7). Our infrastructure, moreover, continues to improve, with the Big Dig, renovations at Logan International Airport, and major capital improvements to schools, roads, and bridges throughout the Commonwealth either completed or scheduled to be complete within the next few years. While State government continued to achieve a higher level of performance and investment, it also significantly reduced taxes and fees and supported the prudent expansion of the State's rainy day fund (see Figure 1-8).

Economic development is a long-term process and requires constant care and attention. The full effects of these new initiatives will be felt over time. What is clear, however, is that State government has become a vital contributor to our knowledge-based economy, helping to build long-term competitive advantage. While much remains to be done, the Commonwealth is far better positioned today to meet the challenges of a dynamic future than it was in 1993.

¹¹ Massachusetts Division of Employment and Training, <http://www.detma.org/lmi/dataprogram.htm> and Andrew Sum, Mykhaylo Trubb'sky, Neeta Fogg, and Sheila Palma, *The Annual Earnings of Workers in Massachusetts and the United States: An Assessment of Trends in the Level and Distribution of Earnings Over the 1979-2000 Period* (Boston: Center For Labor Market Studies, December 2001).

A Strategic Framework for Economic Development

This Report is the product of a fresh strategic review of the State's economic development initiatives as conducted by the Massachusetts Department of Economic Development with extensive research, analytical, and technical support provided by the University of Massachusetts system and coordinated by the UMass Donahue Institute. Like the effort of the early 1990s, extensive outreach was undertaken to enlist the participation of academic experts, business and labor leaders, community groups, and knowledgeable individuals throughout the Commonwealth. With their help, we identified key economic trends and related leverage points in the new knowledge-based economy and developed a strategic framework that is designed to identify the key economic policy challenges before us. This Report also offers a set of policy options that are intended to serve as resources for business leaders and policymakers as they work together to shape our economic future. A list of contributors and conference participants appears at the end of this Report. Without their input, this document could not have been written.

What follows in Chapter 2 is a review of the Massachusetts economy since 1993, which focuses on the dynamics of economic development. Chapter 3 examines our progress and offers a vision for economic development. Chapter 4 offers a strategic framework for economic development. Part II profiles the seven economic regions of the Commonwealth. Chapters 5-11 highlight the unique characteristics of each region and identify their most pressing economic issues. Part III offers a set of specific policy options designed to provide business leaders and policymakers with tools that can be used to realize a shared vision. Policy options are clearly connected with major economic development goals and performance measures that are designed to help track progress towards achieving these goals. Also included is a description of our statewide planning process as well as a list of those who participated in the effort.

This Report appears at a difficult juncture. Massachusetts, along with the nation, is emerging from a recession that began in March, 2001. Employment growth has all but ceased and unemployment jumped more than two full percentage points, from 2.3 percent at year-end 2000 to 4.4 percent in May, 2002.¹² Job losses have disproportionately affected high-paid positions in our export industries – jobs that bring significant amounts of income into the Commonwealth and support the livelihoods of many other workers and their families. The exuberant optimism of the late 1990s has thus been replaced by a cautious concern about what the future might bring.

Planning for economic development is a long-term process. It is not a response to an immediate crisis. A comprehensive framework for economic development can nevertheless help Massachusetts regain its bearings. It is a reminder that recessions eventually end. Only the nastiest national downturns in the

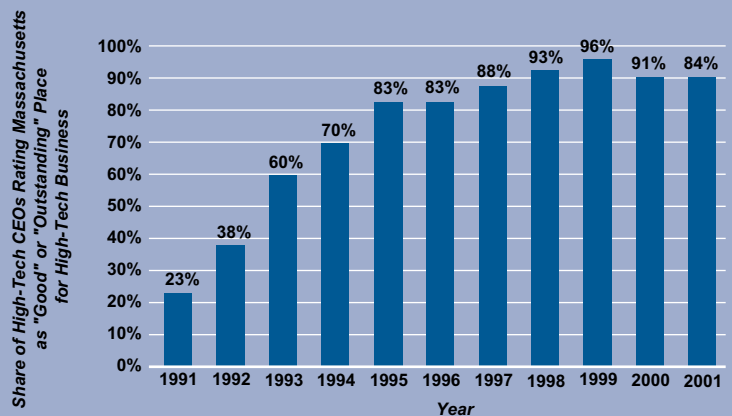
post-war period have lasted two years and most were over in twelve months or less. The Commonwealth is clearly exposed to the slump in IT spending and high-tech investing and to the shock to the national and global economies caused by September 11th. But neither our export sector nor our financial system has been hit as hard as they were in the economic downturn of the early 1990s.

The crucial message of *Toward a New Prosperity* is to focus on the future, while learning from the past. In times of uncertainty, a long-term perspective is critical. We need to identify what the Massachusetts economy should look like in the future and then direct the State's limited resources to getting there quickly and efficiently. Now is the time to effectively address our major problems and significantly enhance the competitive position of Massachusetts and our regions.

Two indicators of our strengthened strategic position:

figure 1-7

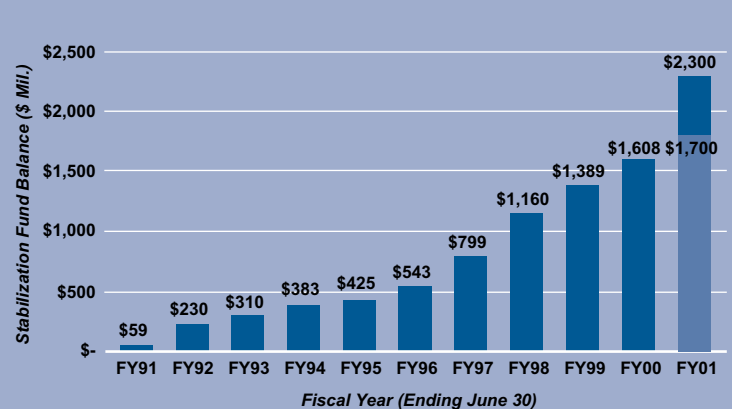
Smart rebound in business confidence...



Source: Mass High Technology Council

figure 1-8

... and the prudent buildup of a rainy day fund



Source: Massachusetts Executive Office of Administration and Finance

Note: FY01 figure includes \$579 million set aside in transitional escrow account

¹² Massachusetts Division of Employment and Training, <http://www.detma.org/lmi/dataprogram.htm>. Andrew Sum, Center for Labor Market Studies, Northeastern University.

The Seven Economies of the Commonwealth

The map of Massachusetts runs from east to west. Our hills, rivers, and coastline, however, generally run north to south and divide the Commonwealth into seven distinct regional economies. In many ways, each needs to develop its own economic development strategy.

Greater Boston - From the earliest days of European settlement, Boston has been the seat of government and the State's primary international port. The city and its surrounding area have remained the largest metropolitan area of the Commonwealth, with nearly half our total population and over half our total employment. It is home to many of Massachusetts' most important civic, commercial, and industrial institutions. Recent explosive growth in key technology clusters has moved development patterns west from the Route 128 beltway to the Interstate 495 corridor.

Northeast - The Merrimack River, running along the northeastern border of the Commonwealth, powered the huge red brick textile mills of Lawrence and Lowell and once made Massachusetts the national center for textile manufacturing. Over the last fifty years, the Northeast has emerged as a major center for high-tech manufacturing. In the 1990s, the region became a major equipment supplier for the telecommunications revolution that flourished during the decade.

Southeast - Coastal cities such as New Bedford and Fall River, inland industrial cities such as Brockton, and concentrations in fishing, textiles, and shoes had given the Southeast region a diverse industrial base. The decline of these traditional industries has been difficult, especially for residents with relatively low educational attainment. Areas closest to Greater Boston have benefited from their proximity to that region's strong economy.

Cape Cod and Islands - The sea dominates the economy of Cape Cod, a marvelously unique peninsula jutting far into the Atlantic, plus the two islands off its south coast—Martha's Vineyard and Nantucket. The region has become a global tourist destination and a favorite location for retirement homes. It is also the fastest growing region in the Commonwealth in terms of employment and population.

Central - Rolling hills separate Greater Boston from the Blackstone River watershed, running from Leominster and

Fitchburg to Worcester, then south to Providence, Rhode Island on the coast. The lower reaches of the Blackstone Valley were the first home of the American Industrial Revolution and the Central region remains one of the most important manufacturing districts in the Commonwealth. The emergence of Biotech in Worcester and the use of new communications technologies in traditional manufacturing industries illustrate the importance of knowledge-based initiatives in the region.

Pioneer Valley - The Connecticut River, running between Vermont and New Hampshire, down through Springfield and Hartford, Connecticut, and then to the coast, is the largest river in the Commonwealth. America's machine-tool industry grew up along its banks, as did many important insurance firms. Today, its industrial composition is much like that of the State as a whole. While areas such as Franklin County retain high concentrations of manufacturing employment, software developers have begun to settle in the scenic countryside and the region boasts a thriving tourism business.

The Berkshires - The Housatonic River, at the western end of the Commonwealth, runs through much of Berkshire County before flowing through Connecticut to the Long Island Sound. The region, the least populous in the Commonwealth and the only one to lose population in the 1990s, struggled to find a new economic base after the departure of major electrical equipment manufacturers but shows evidence of growing economic activity in technology enterprise. Tourism continues to be a major export activity.

the new dynamics of the Massachusetts knowledge-based economy

Since the Industrial Revolution of the early nineteenth century, two or three large manufacturing industries determined the economic well-being of the Commonwealth. These were our export industries – first textiles, shoes, and machinery, then defense, electronics, and computers. Because they sold goods beyond our borders, they generated the income needed to import food, fuel, and manufactured goods produced in other states and overseas. When exports boomed, so did the rest of the Commonwealth. The expansion of employment and income in these export industries boosted demand for medical care, housing, restaurant meals, and all other goods and services produced for the local Massachusetts market.

In the new knowledge-based economy, the competitive success of our export sector remains critical to our economic well-being. We must still export to pay for our imports. And the performance of our export sector continues to be the key engine driving the overall economy. What has changed is the composition of that export sector and the nature of the competitive marketplace in which it operates.

The share of Massachusetts employment in manufacturing – our specialty for nearly two hundred years – actually fell below the national average during the downturn of the early 1990s. Manufacturing employment in Massachusetts continues to fall and now stands nearly a percent point below the national norm. Aside from the bulge in the catch-all services sector, the

Commonwealth's industrial composition at the dawn of the twenty-first century looks much like that of the nation as a whole (see Figure 2-1).

The New Massachusetts Export Sector

What best distinguishes the Commonwealth's export sector today is its reliance on a highly educated workforce. The high educational attainment of the Massachusetts workforce – and the gap separating the Commonwealth from the rest of the nation – is relatively new, and has developed over the past quarter century. This distinctive educational profile emerged, moreover, in response to the growth of export industries that employ large numbers of college-educated workers (see Figure 2-2).¹

Before 1970, the overwhelming majority of educated workers were employed in industries that catered to local markets. They were teachers, doctors, nurses, lawyers, accountants, and clergy in what can be termed the “old professional sector.” The

¹ Lynn E. Browne and Steven Sass, “The Transition from a Mill-based to a Knowledge-based Economy: New England, 1940-2000,” Peter Temin, ed., *Engines of Enterprise: An Economic History of New England*. (Cambridge: Harvard University Press, 2000); Yolanda K. Kodrzycki, “New England's Educational Advantage: Past Successes and Future Prospects,” Federal Reserve Bank of Boston *New England Economic Review*, January/February 2000, and “Migration of Recent College Graduates: Evidence from the National Longitudinal Survey of Youth,” Federal Reserve Bank of Boston *New England Economic Review*, January/February 2001.

Commonwealth's great universities did attract large numbers of out-of-state students and produced a disproportionate number of graduates with baccalaureate, graduate, and professional degrees. But our economy offered them few attractive job opportunities and most of these people soon left the State to find employment.²

Since 1970, however, new professional-intensive industries and activities emerged that did not need to be geographically close to their customers. There were two critical factors:

- **Advances in the economic value of a college education due to...**
 - Improvements in the skills developed and transmitted at colleges and universities. This can be seen in our improved ability to deliver high quality medical care, manage marketing campaigns and investment portfolios, design buildings, and develop pharmaceuticals and IT systems.
 - The development of production technologies that diminished the relative value of craft skill and manual labor vis-à-vis professional design, engineering, and managerial work.
 - The explosive growth of information technologies that augment professional and managerial skills, while reducing the need for administrative and clerical labor.
- **Advances in electronic communications and air transportation** that significantly reduced the cost of moving ideas, people, and products around the globe.

In the 1990s, knowledge-based export activities grew to such an extent that today they clearly dominate the Massachusetts export sector. No two or three large, well-defined knowledge-based industries dominate our exports. Instead, there are *clusters* of firms, competing globally, in the most sophisticated branches of many different industries.³ Massachusetts, for example, has a disproportionate share of employment in higher education. The most critical factor, however, is that the Commonwealth is home to many of the world's elite universities and teaching hospitals. We are also home to a large securities industry. But what's key is our concentration of firms providing high-value investment management and IT systems development. Massachusetts specializes in management consulting. But what distinguishes our State is the disproportionate number of firms providing services to the world's largest and most demanding corporate clients. The common denominator linking most of our export clusters is their reliance on large numbers of highly educated knowledge workers (see sidebar, *The Massachusetts Export Sector*, on next page).

² Steven Sass, "The U.S. Professional Sector: 1950-1988," *Federal Reserve Bank of Boston New England Economic Review*, January-February 1990.

³ For the importance of industry clusters, see the sidebar, Michael Porter's "Cluster Theory of Competitiveness," in Chapter 1.

figure 2-1

Aside from more jobs in services, our current industrial structure looks much like the nation...

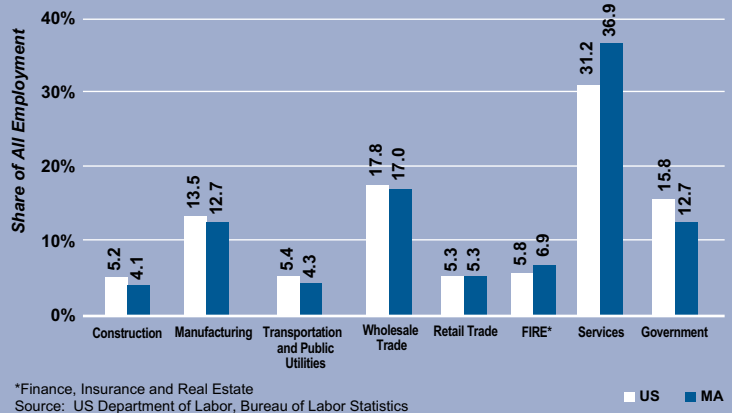
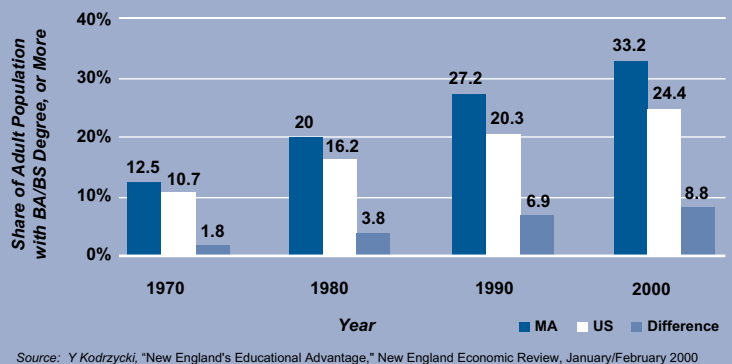


figure 2-2

...yet there is distinctive educational attainment in Massachusetts



The Massachusetts Export Sector

Professor Michael Porter, in his influential study *The Competitive Advantage of Massachusetts*, organized the Massachusetts export sector into four broad industry clusters. These were “substantial clusters of industries which compete nationally and internationally, have the size, sophistication, productivity, and national and international positions to drive economic upgrading. These clusters include both manufacturing and service industries which are often closely interconnected.”⁴

The four were:

- **Financial Services** (see figure 2-3)
- **Health Care** (see figure 2-4)
- **Information Technology** (see figure 2-5)
- **Knowledge Creation** (see figure 2-6)

Each cluster includes industries that cater primarily to local Massachusetts markets. Industries such as banking in Financial Services and health care services in Health Care receive the bulk of their revenues from within the Commonwealth. Porter’s notion, however, is that the competitiveness of export markets depends on the vitality of these clusters of closely related industries that share technologies, skilled workers, and specialized suppliers. Thus, local markets leverage skills that enable upgrading and export outside the State.

To provide a fuller picture of the Commonwealth’s export sector, *Choosing to Compete*,⁵ the Commonwealth’s economic strategy document, added tourism and the manufacturing industries not included in Porter’s four large clusters. Professors Robert Forrant, Philip Moss, and Chris Tilly, of UMass-Lowell built upon this format and focused on these six broadly defined clusters in their recent study *Knowledge Sector Powerhouse*.⁶ They added:

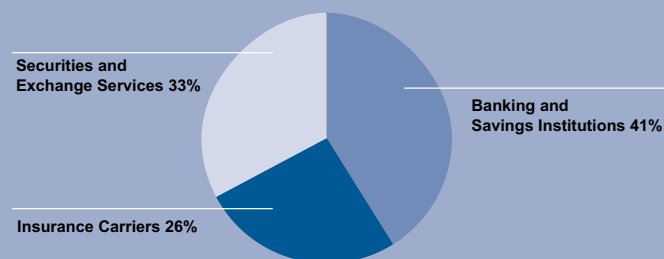
- **Traditional Manufacturing**, including all manufacturing, except industries found in other export clusters, such as computer and related hardware manufacturing, scientific instruments, and medical instruments. The cluster includes paper, rubber and plastics, fabricated metals, apparel and textiles, and industrial machinery (see figure 2-7). Many industries in the cluster are relatively mature, generally serving markets with slower growth prospects than the other export clusters. However, traditional manufacturers continue to provide a foundation for regional economies in Massachusetts. Many firms in the cluster also continue to thrive in the Commonwealth by applying advanced technology to enhance productivity.⁷

- **Travel and Tourism**, which includes hotels, lodging places, restaurants, attractions, and transport facilities for business and leisure travelers. To get a clearer measure of export activity in the cluster, we use the data on “hotels and lodging places” industry as a proxy for the larger Travel and Tourism Cluster, in Part II.

These additional clusters are clearly part of the Commonwealth’s export sector. While Travel and Tourism and Traditional Manufacturing are not so clearly “knowledge-based,” they increasingly rely on technical and managerial expertise to remain competitive in the national and global marketplace.⁸ The six clusters examined in *Knowledge Sector Powerhouse* inform the economic analysis of the seven regions of the Commonwealth presented in Part II.

figure 2-3

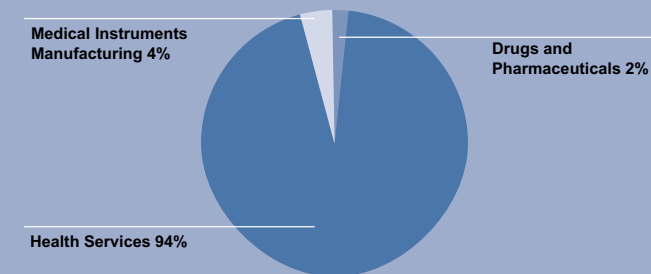
Financial Services Employment, 2000 Cluster Employment = 166,742



Source: Massachusetts Division of Employment and Training

figure 2-4

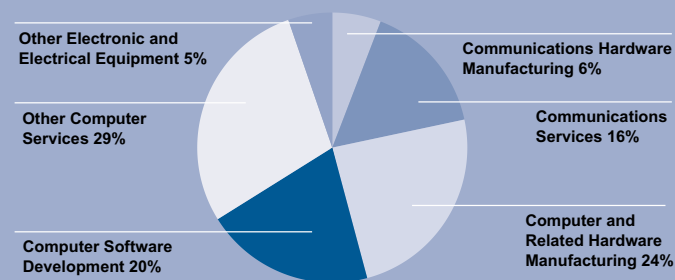
Health Care Employment, 2000 Cluster Employment = 359,899



Source: Massachusetts Division of Employment and Training

figure 2-5

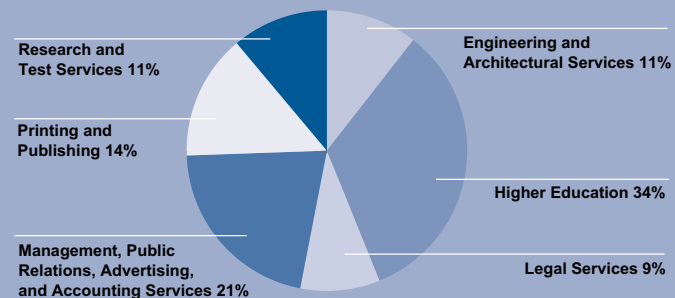
Information Technology Employment, 2000 Cluster Employment = 277,392



Source: Massachusetts Division of Employment and Training

figure 2-6

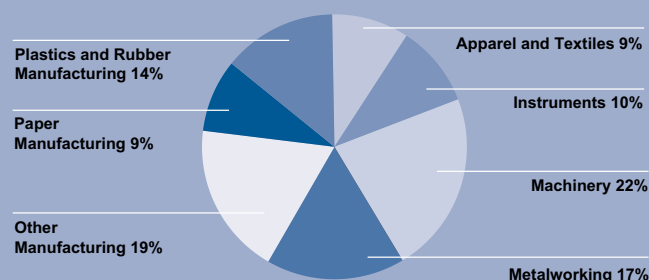
Knowledge Creation Employment, 2000 Cluster Employment = 328,305



Source: Massachusetts Division of Employment and Training

figure 2-7

Traditional Manufacturing Employment, 2000 Cluster Employment = 135,358



Source: Massachusetts Division of Employment and Training

Another University of Massachusetts study provides a different view of the Massachusetts export sector.⁹ Using the new North American Industrial Classification System (NAICS), which provides greater detail on service industries than the traditional Standard Industrial Classification (SIC) system, it identified industries that employ a disproportionate number of workers in the Commonwealth. They calculate “location quotients” – the industry’s share of State employment as a ratio of its share of U.S. employment – for key NAICS industries, for Massachusetts, and key competitor states. Industries with high location quotients employ disproportionately large numbers of workers and generally are involved in production for export.

figure 2-8

Location Quotients for Selected Sectors and Competitor States

NAICS Sector	Description	MA	CA	CO	NJ	NY	TX	All Other
21	Mining	0.08	0.39	1.50	0.12	0.12	3.01	1.36
23	Construction	0.71	0.90	1.37	0.80	0.74	1.09	1.02
31	Manufacturing	0.92	0.97	0.64	0.76	0.71	0.83	1.14
334	Computer and electronic product manufacturing	2.34	2.13	1.49	0.73	0.78	1.17	0.70
48	Transportation and warehousing	0.67	0.98	0.81	1.42	0.91	1.04	1.00
51	Information	1.39	1.33	1.54	1.36	1.43	1.00	0.84
514	Information services and data processing services	1.50	0.88	1.40	0.83	1.73	1.27	0.96
52	Finance and insurance	1.36	0.96	0.92	1.13	1.60	0.88	0.93
523	Securities, commodity contracts, other financial investments, and related activities	2.90	0.96	1.08	1.81	4.06	0.64	0.57
54	Professional, scientific, and technical services	1.31	1.39	1.23	1.31	1.27	0.97	0.83
61	Educational services	1.48	1.34	1.49	1.48	1.38	1.01	0.79
62	Health Care and social assistance	1.24	0.83	0.81	0.93	1.27	0.95	1.03
71	Arts, entertainment, and recreation	0.85	1.24	1.40	0.73	1.14	0.78	0.95

The location quotient (LQ) represents an industry's share of Massachusetts employment, divided by an industry's share of national employment. LQ values exceeding 1.0 indicate an industry's above-average presence in Massachusetts. These industries also create products and services that exceed local demand and are exported.

Less than or equal to 80% of share of employment
 120% to 200% of share of employment
 200% to 300% of share of employment
 300% plus share of employment

Source: Moore et al., “Science, Technology and Investment,” University of Massachusetts Donahue Institute, 2001

⁴ Michael Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990) and *The Competitive Advantage of Massachusetts* (Cambridge: Monitor Corporation, 1991).

⁵ Massachusetts Executive Office of Economic Affairs and The University of Massachusetts, *Choosing to Compete* (Boston: Massachusetts Executive Office of Economic Affairs, 1993).

⁶ Robert Forrant, Philip Moss, and Chris Tilly, *Knowledge Sector Powerhouse*, (Boston: Donahue Institute, University of Massachusetts, 2001). Like Forrant, et al., the authors of *Choosing to Compete* had identified tourism and these other manufacturing industries as part of the Massachusetts export base. This report applies the name “Traditional Manufacturing” to the export industry cluster identified as “Other Manufacturing” in *Knowledge Sector Powerhouse*.

⁷ Ibid, pg.30

⁸ Unlike Porter's four original clusters, the two added in *Knowledge Sector Powerhouse* do not include industries that cater primarily to the local Massachusetts market. As “hotels and lodging places” is a proxy for the larger Tourism Industry, looking at its employment or revenues alone understates the significance of the larger Tourism Industry.

⁹ Craig Moore, Susan Porter, and Vanitha Swaminathan, *Science, Technology and Investment: The Cycles of Growth in Massachusetts*, unpublished manuscript, UMass Donahue Institute, University of Massachusetts, 2001.

The Four Factors Critical to the Economic Development of the Commonwealth

In the 1990s, four factors emerged to define the innovative and competitive potential of the new Massachusetts economy. They are: the supply of knowledge workers; our capacity for networked entrepreneurship; the opportunities presented by globalization; and the challenge of maintaining the quality of life in our communities. These four factors will remain the key to our competitive strength and economic success as we move into the twenty-first century.

Factor 1: Knowledge Workers - While financial resources and physical infrastructure remain important, the quality of human capital in the Commonwealth is the key to our competitive success. The central role of knowledge workers explains several key characteristics of the Massachusetts economy:

Higher per capita income - Workers with similar educational profiles earn much the same wage in the Commonwealth as in the nation. The higher per capita incomes in Massachusetts can be explained by the educational composition of our workforce. This suggests that Massachusetts incomes can only grow, vis-à-vis the nation, if the educational attainment and knowledge-based skills of our workforce are enhanced.¹⁰

A high rate of worker mobility - The value contributed by highly educated workers is increasingly based on professional skills and relationships that can be taken from one firm to another. Such workers tend to use these skills on projects with a finite life cycle; typically five-to-ten years or less, rather than making a career-long commitment to a particular organization. What's most attractive to knowledge workers are opportunities to participate in innovative projects that promise great rewards, while enhancing their professional skills.

An abundance of small entrepreneurial companies - Small organizations, including semi-independent units of larger companies, offer highly educated workers far more opportunity to exercise their creativity and discretion – and this represents their major contribution to the “new economy.”

Factor 2: Networked Entrepreneurship - Entrepreneurs mobilize resources by using various types of networks. These networks include formal professional, trade, and civic associations. Even more important are informal networks, such as business and professional relationships, occasional contacts such as hiring interviews, conversations at business meetings, and introductions at social events. Through these relationships, entrepreneurs access ideas, money, people, and markets.

Networked entrepreneurship is the process that energizes industry clusters. It connects firms with suppliers, customers, academics, government agencies, partners, and even competitors. It can mobilize resources far faster than impersonal market relationships and with far greater flexibility and energy than a traditional corporate enterprise. Especially in a diverse, multi-faceted, and rapidly evolving economic environment, the Commonwealth's capacity for networked entrepreneurship has emerged as a critical competitive factor.¹¹

Knowledge-based enterprises thrive on contact with people and ideas outside the organization. They form partnerships with other firms, especially in R&D and marketing. They turn to outside providers for critical services, such as financial, managerial and legal services, employee training, PR, marketing, manufacturing, and logistics. They rely on contributions from key employees with the right skill set and maturity, and who must often be treated as partners, not employees. And they swap information, even with competitors, about everything from promising new technologies to effective ways to compensate their employees.

Such partners, service providers, employees, and information sources must often be geographically proximate. In this context, two types of clustering in knowledge-based economies emerge:

Industry clusters - As Michael Porter and others observed, many of today's most vibrant economies are built around concentrations of firms that compete in the same or related industries. The concentration of computer makers along Route 128 is a fine example. This clustering creates various proximity-based “agglomeration” economies. It aggregates demand for industry-specific resources – for workers with particular skills and suppliers of specialized instruments, materials, and services – and this aggregation of demand serves to attract and expand the

¹⁰ Robert Forrant, Philip Moss, and Chris Tilly, *Knowledge Sector Powerhouse* (Boston: Donahue Institute, University of Massachusetts, 2001). A striking trend in the '90s was the convergence of earnings in Massachusetts and those in the nation for workers with the same educational attainment. Aside from Massachusetts workers with high school diplomas, who continue to earn significantly more – fifteen percent more – than their counterparts in the nation, earnings in the Commonwealth are only three to five percent greater than those in the nation. Andrew Sum, Mykhaylo Trubbsky, Neeta Fogg, and Shiela Palma, *The Annual Earnings of Workers in Massachusetts and the United States: An Assessment of Trends in the Level and Distribution of Earnings Over the 1979-2000 Period* (Boston: Center For Labor Market Studies, December 2001).

¹¹ For discussions of networks, see Walter W. Powell and Laurel Smith-Doerr, “Networks and Economic Life,” in Neil J. Smelser and Richard Swedberg (eds) *The Handbook of Economic Sociology*, (Princeton, NJ: Princeton University Press, 1994) and Stuart A. Rosenfeld, *Backing into Clusters: Retrofitting Public Policies*, a report to the Organization for Economic Cooperation and Development, 2001, and *Networks and Clusters: The Yin and Yang of Rural Development*, a report to the Federal Reserve Bank of Kansas City, 2001.

supply of these critical inputs. Competition within these clusters also limits the ability of any large player to exploit their suppliers or customers. More critically, this competition stimulates innovation and the rapid diffusion of new ideas, which makes the entire cluster more competitive.¹²

Urban clusters - Knowledge-based firms tend to locate in metropolitan areas to take advantage of two important resources: first - large and expansive assets, like airports and universities; second - rich supplies of sophisticated business support services, including venture capital and other forms of finance; various types of legal, advertising, and marketing services; logistical services for different types of products; hotel, restaurant, convention, and meeting facilities; printing; and office, R&D, and manufacturing space.¹³ Two industries that grew rapidly in the 1990s were “business services” and “personnel supply” – “urban” providers of labor shared among firms in many different industries. Robust transportation networks expand the reach of urban economies. In the 1990s, the rapidly developing Interstate 495 belt created a reciprocal flow of knowledge workers and urban assets and linked the resources of the Boston metropolitan area to many smaller Massachusetts cities and towns.

Factor 3: Globalization - The greatest opportunities for a knowledge-based economy lie within the expanding global marketplace. The United States is exceptionally well endowed with highly educated workers compared to other parts of the world, which is why U.S. merchandise exports are heavily weighted toward sophisticated high-tech products. Current research highlights the significance of globalization to the Massachusetts economy:¹⁴

Manufacturing - U.S. merchandise exports attributed to Massachusetts equaled 35 percent of manufacturing value added in the Commonwealth – the 11th highest level in the nation.

Services - While State-level service export data does not exist, U.S. service exports have been growing rapidly and in 2001, equaled 39 percent of total U.S. merchandise exports.¹⁵ Most prominent

are IT services, such as software and systems integration; financial services, such as currency trading, banking, and investment management; higher education, in the form of payments by foreign students studying in the United States; and R&D, in the form of contracts, royalties, and licensing fees. Massachusetts probably captures a disproportionate share of these major knowledge-based exports. The largest U.S. service export, accounting for more than half the total, is Travel and Tourism. The combination of travel associated with merchandise and service exports, plus the Commonwealth’s appeal to overseas tourists, made Massachusetts the eighth most popular U.S. destination for foreigners.

Intra-company trade and investment - Sales by foreign affiliates of U.S. companies in 1995 totaled \$1.6 trillion – *twice* as large as aggregate U.S. exports. These sales are especially important in the Information Technology (IT) sector, as hardware can often be manufactured more effectively abroad and overseas customers require local marketing, sales, installation, and support services. This international business pattern generates managerial and technical jobs at parent firms, stabilizes the business, and makes the entire enterprise more competitive. Massachusetts also receives significant foreign direct investment, largely through engineering and marketing affiliates of high-tech companies. This strengthens the Commonwealth as a significant node in the global exchange of technical and commercial ideas and stimulates learning and innovation.

Factor 4: The Increasing Importance of “Place” - Knowledge workers are employed in urban and industry clusters that compete in the global marketplace. But they live in local communities. For highly educated workers, these communities are increasingly not where they were born and raised. Most leave home to go to college and move again to attend professional school or to take an attractive first job. Such workers increasingly live where they chose. As a result, living costs and residential amenities have become critical competitive factors controlling the ability of a knowledge-based economy to grow.

Commentators have long argued that the high cost of living in the Commonwealth, and especially the high cost of the housing in Greater Boston, has dampened our competitive success. But as research demonstrates, environmental quality and lifestyle amenities are becoming more critical than living costs in attracting and retaining young knowledge workers.¹⁶ Outdoor recreational activities and a university ambiance often have more appeal than professional sports teams or “high art” museums and symphonies. While the Commonwealth offers many of these traditional amenities, it gets especially high marks for these newer “quality of life” measures.

¹² See Michael Piore and Charles Sabel, *The Second Industrial Divide* (New York, Basic Books, 1984) and Michael Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990).

¹³ Jane Jacobs, *The Economy of Cities* (New York: Random House, 1969), and *The Death and Life of Great American Cities* (New York: Random House, 1961); Edward Glaeser, “Cities, Information, and Economic Growth,” *Cityscape: A Journal of Policy Development and Research* 1:1 (1994), “The New Economics of Urban and Regional Growth,” in *The Oxford Handbook of Economic Geography*, eds., Gordon L. Clark, Maryann P. Feldman, and Meric S. Gertler, (Oxford: Oxford University Press, 2000).

¹⁴ Jane Little, “Massachusetts: A Neglected ‘Global’ State,” *Massachusetts Benchmarks*, Summer, 1998.

¹⁵ U.S. Department of Commerce, International Trade Administration. See their web site: <http://www.ita.doc.gov/td/industry/otea/usfth/aggregate/H01t01.html>

¹⁶ Richard Florida, *Competing in the Age of Talent*, report prepared for the R.K. Mellon Foundation, Heinz Endowments, and Sustainable Pittsburgh, January 2000.

The Dynamics of the New Economy

To get a better understanding of the new dynamics of economic development, we turn to case studies of three Massachusetts industries: biotechnology, Information Technology (IT), and plastics. In analyzing these three industry clusters, we wish to illustrate the influences of the four key competitive factors noted above and highlight their importance to the future of the Massachusetts economy.

The *Massachusetts biotech industry* in the 1990s illustrates the emergence of a classic knowledge-based industry cluster. As one of the Commonwealth's major recipients of federal R&D funding, and with extremely close ties to our universities, biotech also illustrates the larger economic contributions of government and academia in knowledge-based economies.

The evolution of the *Massachusetts IT industry* in the 1990s illustrates the dynamics of a mature knowledge-based cluster – one no longer as dependent on government and university support as biotech. Even after the decline of the minicomputer, the Massachusetts IT cluster remained vibrant because it was a key capital goods industry of the new knowledge-based economy (the other being the higher education, which creates “human capital.”) and it had the flexibility to respond to emerging technical and business opportunities.

The *Massachusetts plastics industry* illustrates the dynamics of the Commonwealth's traditional industries in the 1990s. The knowledge-based economy developed new industries, such as IT and biotech, centered largely in Greater Boston. Plastics, centered in the North Central region, was among the Commonwealth's most successful traditional industries during the 1990s. It nevertheless illustrates both the struggles of the State's older industries and regions, and the opportunities smaller businesses have to take advantage of the new opportunities presented by the knowledge-based economy.

The Dynamics of Biotech: The Classic Industry Cluster Model

The rise of the Massachusetts biotech industry illustrates many of the key characteristics of our new knowledge-based clusters. The story begins with the emergence of new technologies in academic laboratories. The new technology, for analyzing and manipulating DNA, has tremendous promise, especially for the enormously high-value pharmaceutical industry. Massachusetts had never been a major player in pharmaceuticals and even today does not rank among the industry leaders in terms of employment. But the new breakthroughs in human genome research place Massachusetts at the innovative frontier of the industry.

The impetus of our biotech cluster – like the defense and minicomputer clusters of the past – has been federal R&D funding.

In the 1980s, as the promise of the new technologies came into focus, the National Institutes of Health (NIH) began investing huge sums of money to solve the mysteries of the genome. Massachusetts universities and teaching hospitals were the primary recipients. The Commonwealth received far more NIH funding than any other state in the nation, with annual expenditures estimated at over \$1 billion.¹⁷ (see sidebar, *Biotech: A Classic, Knowledge-based Cluster* on right)

This tremendous flow of federal funds created a rich supply of ideas and highly trained workers in our academic institutions. But unlike the case of defense and computers, NIH funding has focused on basic research rather than applied research or development. Unlike the defense industry, the federal government is not “the customer” of biotech products and, as such, does not rely on an entrenched contractor network to manage the transfer of technology from the lab to the marketplace.

Nor have the major pharmaceutical corporations simply hired well-trained Ph.D.s into their research labs elsewhere in the nation. Biotech represents a major discontinuity in the technology of drug discovery. As such, it proved extremely difficult to package and ship the technology to the existing pharmaceutical industry. This was the case despite efforts to encourage such transfers including: a patent system that allowed new biotech discoveries to become negotiable “intellectual property;” the landmark Bayh-Dole Act of 1980 that allowed universities and researchers to claim such negotiable property rights on the fruits of federally funded research; and initiatives by leading Massachusetts universities in establishing units such as MIT's highly regarded Industrial Liaison program to accelerate this transfer of technology. There is a great deal of critical “tacit knowledge” involved in any technology. In Massachusetts, academic centers became prime repositories of this fundamental technical resource. Shared, implied knowledge in these settings inform the perceptions of researchers and decisions advancing technology development.

The actual process of technical innovation – of using biotech to bring valuable new products to market – has been eased by leaner, more nimble entrepreneurial networks. Compared to their governmental and corporate counterparts, these entrepreneurial networks are far richer, more fluid, and diffuse, though often much harder to navigate.

The process begins when university professors, or people with close ties to university labs, establish companies around particular lines of research. Biotech, however, is enormously capital intensive. It requires sophisticated equipment and significant amounts of

¹⁷ Massachusetts Biotech Council *Bionotes*, Fall 2001.

Biotech: A Classic, Knowledge-based Cluster

Biotech illustrates the classic agglomeration economies in knowledge-based clusters. The scale and vibrancy of the industry supports specialized suppliers such as:

► A sophisticated organization – the Massachusetts Biotech Council (MBC) – that organizes symposia, investor conferences, trade expositions, and consular contacts. The MBC supports over a dozen member-directed committees on topics ranging from biostatistics, bioinformatics, and clinical trials to finance and marketing. It even hosts an annual CEO get together, as well as an annual golf outing, which are explicitly designed to expand professional and business contacts.¹⁸

► Specialized training programs that serve many firms in the industry. The Massachusetts Biotech Council itself sponsors customized training programs for biotech managers in areas such as human resources, finance, and marketing. The University of Massachusetts has established a multi-campus joint Master of Science and Ph.D. degree program in Biomedical Engineering and Biotechnology. Other organizations offering specialized training include Roxbury Community College, which offers a biomanufacturing certificate program, and Boston University, which has developed a graduate program in bioinformatics.

► Specialized real estate developers that convert multi-story brick factory buildings into desirable biotech space. These buildings often have limited commercial value. But their heavy beams can support lab equipment and rooftop mechanicals and their high ceilings can accommodate essential ventilation ducts. Because there is sufficient demand, renovation specialists emerged to develop these spaces. The City of Cambridge drafted regulatory codes and procedures – which other cities and towns have adopted.

► A community of lawyers, venture capitalists, public relations and advertising professionals that specialize in biotechnology. The MBC estimates that at least ten major law firms in the Commonwealth offer the complete range of services a biotechnology company needs, such as negotiating deals, preparing contracts, handling intellectual property claims, and representing the firm in FDA regulatory matters.

► Specialists who can help firms navigate the FDA's precise and complicated approval process. Massachusetts biotechnology companies now have about 40 drugs in clinical trials and more are in the pipeline. These firms need help not just from lawyers, but from experts who know how to manage the trials, maintain proper documentation, and control quality in their manufacturing process.

figure 2-9

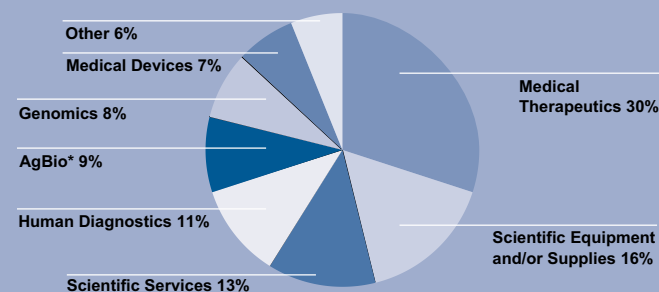
Geographic Distribution of Biotech Firms in MA

Region	Number	Share
Inside I-95	143	60%
Between I-95 and I-495	68	28%
Outside I495	29	12%
Total	240	100%

Source: Massachusetts Biotechnology Directory 2000, Massachusetts Biotechnology Council

figure 2-10

Biotech Firms Compete in a Wide Variety of Markets



*AgBio includes new strains of plant/animal species and new/enhanced food products.

Source: Massachusetts Biotechnology Council, 2001

¹⁸ The following material comes from the Massachusetts Biotech Council Directory, various issues of *Bioline*, and a conversation with Janice Borque and Stephen Mulloney of the MBC.

time before products come to market. In the case of pharmaceuticals, product development takes a decade or more and can cost hundreds of millions of dollars (see sidebar *The Vibrancy of the Massachusetts "Innovation System"* on pages 25 and 26). These biotech entrepreneurs were able to find funds for their ventures from two main sources – venture capitalists (VCs) and major pharmaceutical companies. Big Pharma, which includes many foreign firms, typically funds specific drug-discovery projects in exchange for marketing rights or similar claims on the results of the project. The VCs typically take an equity stake and they fund a broader set of biotechs, including companies developing tools, information, and services, as well as new pharmaceuticals. Both the VCs and the large pharmaceutical firms typically hold portfolios of high-risk biotech investments¹⁹ and are pleased if any of these investments produce the “the next big thing.”

These networked relationships have helped to generate dramatic growth in the Massachusetts biotech cluster. Employment has more than tripled over the decade, from 8,000 workers in 1991 to 28,000²⁰ in 2001. The number of companies grew just as fast, rising from 88 (1991) to 300 (2000), and they now have a market capitalization of \$29 billion. By some accounts, Massachusetts now has the largest concentration of biotech firms in the nation. The cluster is also highly diversified, with firms competing in many different markets. Individual companies are also diversified, competing in more than one biotech market. And this cluster also includes a rich variety of highly-specialized suppliers.

The biotech cluster has benefited from the agglomeration economies provided by the metropolitan Boston economy:

- ▶ Because biotech is unusually reliant on networked entrepreneurship, it needs restaurants, conference facilities, and efficient ground transportation. The Massachusetts Turnpike, for example, connects the UMass Medical Center and biotechnology companies in Worcester to the heart of the Boston-Cambridge biotech district, thereby expanding the depth and breadth of the industry cluster.
- ▶ Because biotech is a global business with global as well as local networks, it relies on local hotels and taxis, easy access to and from Logan airport, and ample air service to other centers of biotech, finance, and pharmaceutical activity.

- ▶ Because many promising opportunities emerge at the boundaries of a particular industry cluster, Massachusetts biotech firms have benefited from links to other powerful clusters in the Commonwealth. Perhaps most important is the recent emergence of bioinformatics. The biotech industry has developed tools that generate mountains of data on microbiological structures and processes. By linking up with powerful IT and computational resources in the Commonwealth, firms can efficiently analyze and

manage this data to better understand the underlying biology.

The Dynamics of Information Technology (IT): Continuous Cluster Mobility

The rapid decline of the Massachusetts minicomputer industry at the beginning of the 1990s was a major shock to our economy. The industry had emerged in the 1950s and 1960s and looked much like biotech today – first flush with federal R&D support and university connections, then VC funding and a move into commercial markets. Digital Equipment Corporation (DEC) grew directly out of a major military-funded project at M.I.T. and was the first great success story of the nation's pioneer VC fund – American Research and Development - headed by Harvard Business School professor General George F. Doriot. Soon, other Massachusetts companies entered the field, such as Wang, Data General, Prime, and Apollo. In part spurred on by intense local rivalries, DEC grew to contend with IBM for leadership of the global computer market, and in 1988 employed more than 120,000 workers worldwide.²¹

The minicomputer crash just a few years later was a painful defeat. But it did not mark the end of IT in Massachusetts. The minicomputer companies continued to support old customers and sell new products and services – though at a much reduced rate. More importantly, the crash precipitated a redistribution of the industry's resources into different segments of the broader IT cluster.

The fall of the minicomputer is generally traced to the rise of the personal computer (PC). The 1990s, however, did not become “the decade of the PC.” It became the decade of IT networks - from corporate client-server systems to the Internet. Massachusetts had the resources – and the resourcefulness – to succeed on this new innovative frontier.

Distributed computing, a forerunner of modern networking, had actually been an important component of the minicomputer model. Much of our the defense work that took place in Massachusetts, including the air defense project that led to the creation of DEC, involved IT command and control of dispersed weapon systems. AT&T (later Lucent) had a large manufacturing facility in North Andover that became a major provider of communications networking hardware. In essence, the Commonwealth's IT managers and professionals had skills that were applicable far beyond the minicomputer and the firms that produced them.²²

¹⁹ Walter W. Powell and Laurel Smith-Doerr provide a glimpse of this complexity taken from their research in the field. Powell and Smith-Doerr, “Networks and Economic Life,” p.395 n.15

²⁰ Massachusetts Biotechnology Directory 2001, Massachusetts Biotechnology Council

²¹ Browne and Sass, “The Transition to a Knowledge-based Economy.”

The Massachusetts IT Export Sector Shifts Sharply Toward Software and Systems Integration

As VC investment in the Commonwealth surged in the '90s, the share flowing to the IT sector (defined as communications, software, and semiconductors) slipped from 54 to 47 percent of the total. Attractive opportunities emerged in new areas, such as biotech, and the rapid rise of investment funds pushed VCs to seek opportunities in new areas. Within IT, however, VC funds moved sharply toward “computer software and services” and away from hardware, especially “computer hardware.”

By 1998, IT services accounted for over half of total employment in the Massachusetts IT export sector. Computer manufacturing accounted for only one in four IT export-sector jobs.

Over the course of the decade, the high-value activities within the IT industry shifted from computers to semiconductors and communications, from hardware to software, Internet service provision, and content development, and to “enterprise” information systems. Massachusetts IT managers and professionals, many from the minicomputer industry, soon developed exciting new technologies and commercial applications in these areas. Their innovations often involved significant discontinuities in markets, distribution channels, business models, and technical traditions. This required the creation of new firms - even new occupations. The Commonwealth, however, was an unusually fertile ground for developing such ventures because it had:

- ▶ The necessary “urban cluster” resources – supporting lawyers, VCs, and marketers, and top-tier education and training, transportation and communications, and hotel, conference, and convention facilities.
- ▶ The classic “industry cluster” resources – large numbers of highly skilled people, specialized suppliers, sophisticated customers, and networking organizations such as the Massachusetts High-Tech, Telecommunications, and Software and Internet Councils.
- ▶ A unique “cluster” resource – a large concentration of people called “influencers,” – the industry analysts, journalists, consultants, and academics who sort through business and technology trends and provide leadership for the global IT sector. Being close to “the conversation” about emerging directions has been a critical advantage in this rapidly changing, multi-faceted sector.²³

The Massachusetts IT export sector branched out in many different directions and by the end of the decade employed 100,000 people. It stretched across computers and communications, materials, components, and software development, systems integration, content delivery, and the provision of ongoing service

and support. As seen in the flow of VC funds and IT employment, software and systems integration – two service industries – emerged as most important. Together they absorbed over half of VC investment and employment in the Commonwealth’s IT export sector²⁴ (see sidebar above, *The Massachusetts IT Export Sector Shifts Sharply Toward Software and Systems Integration Services*).

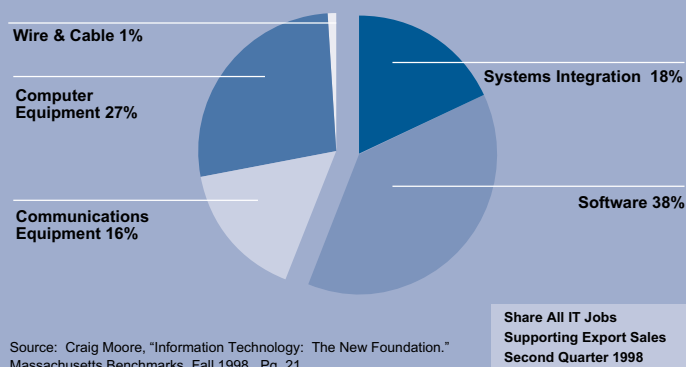
The Commonwealth’s software and systems integration industries follow the knowledge-based economy model. They rely on highly educated workers organized in small firms that depend on networked entrepreneurship. Sixty percent of all Massachusetts software firms employ four or fewer workers; nearly 40 percent are three years old or less. Only five Massachusetts systems integration firms have more than 500 workers and one quarter are three years old or less.²⁵

What makes the software and systems integration industries so fluid and dynamic is the fact that capital requirements are low and not highly specialized. These industries use standard office space, which can be rented; PCs, which are inexpensive; and “smart people.” Biotech, by contrast, needs costly, industry-specific assets and skills and very patient investors. So in IT, there are many more firms and much more self-employment.

The firms that populate the Massachusetts IT service sector are “machine-shops” for the new global knowledge-based economy.

figure 2-11

By 1998, IT Services Accounted for over Half of All IT Export Jobs



²² Craig Moore, "Information Technology: The New Foundation," *Massachusetts Benchmarks*, Fall '98.

²³ This observation and the term "influencer" comes from Joyce Plotkin, President of the Massachusetts Software and Internet Council.

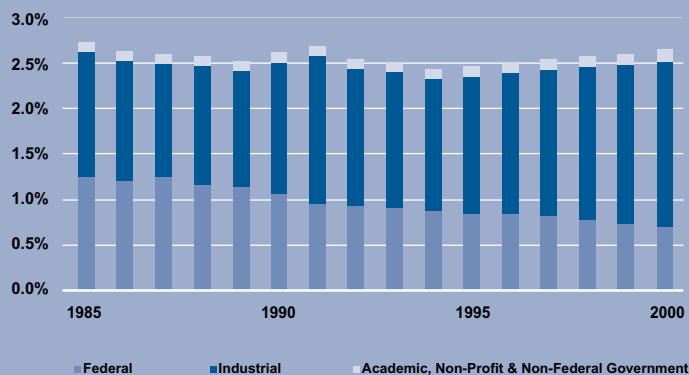
²⁴ Craig Moore, "Information Technology: The New Foundation." 1998.

²⁵ Ibid.

While funding for research and development remains steady, industry increases its share of investment

figure 2-12

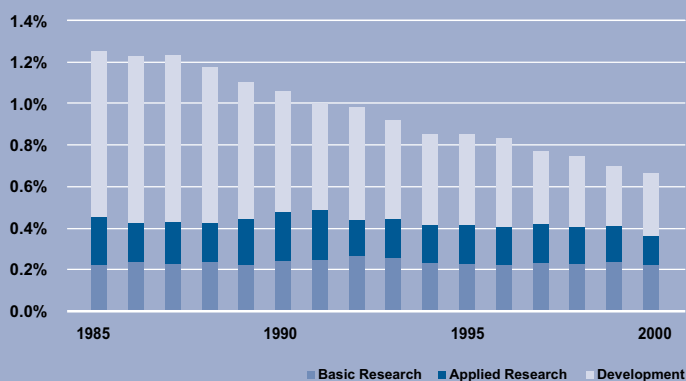
Total R&D % GDP by Source of Funds



Source: National Science Foundation, as reported by the Massachusetts Technology Collaborative

figure 2-13

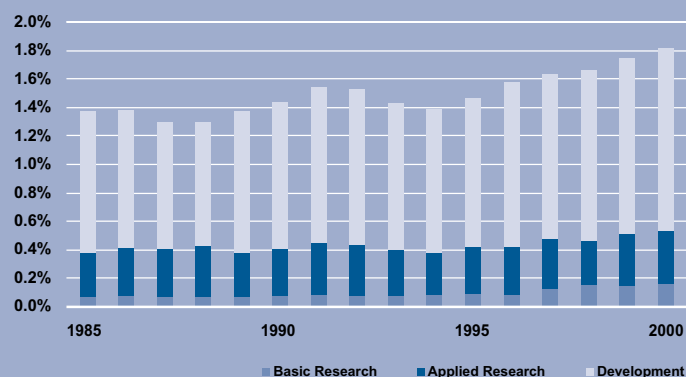
Federal R&D % GDP by Character of Work



Source: National Science Foundation, as reported by the Massachusetts Technology Collaborative

figure 2-14

Industrial R&D % GDP by Character of Work



Source: National Science Foundation, as reported by the Massachusetts Technology Collaborative

The Vibrancy of the Massachusetts “Innovation System”

R&D expenditures are the lifeblood of the technical innovation process. In the U.S., R&D investments over the past half-century have consistently been 2.5-2.8 percent of GDP. The allocation of this investment into basic research, applied research, and development has also been relatively stable. What changed dramatically over the previous decade has been the decline of federal spending, its concentration on “basic research,” and the rise of industry investment in “applied research” and “development.”

Massachusetts has long received far more federal R&D funding per capita than any other state in the nation, giving the Commonwealth a critical foundation for technical innovation. As competition for federal R&D funds intensified in the 1990s, the State’s share of federal expenditures declined. Far more dramatic was the shift in the Commonwealth’s portfolio of federally funded R&D from strength in two sectors – defense and life sciences – to strength in the life sciences alone. Consistent with this shift away from defense, and with the government’s shift toward basic research, the flow of federal R&D funds into Massachusetts has moved from industry and defense-related labs to our universities and hospitals.

Corporations and individual entrepreneurs have thus assumed primary responsibility for “applied research” and “development” – for bringing technically sophisticated goods and services to market. Our major universities have supported these efforts by setting up offices for transferring academic technology and intellectual property out of the labs and by encouraging faculty to develop relationships with the commercial sector. The two main sources of private funds for the commercialization of new technologies are major corporations and venture capitalists (VCs). The VCs are especially important. They generally look to grow the business to the point where they can “exit” investments through an initial public offering or by selling out to a larger firm. In addition to providing funds, VCs help technical entrepreneurs target promising market segments and identify what customers want; develop a viable business model; and negotiate complex deals with banks, corporate partners, and providers of business services.

Venture capital investments fuel growth and innovation

figure 2-15

The boom and bust in venture capital spending in select markets

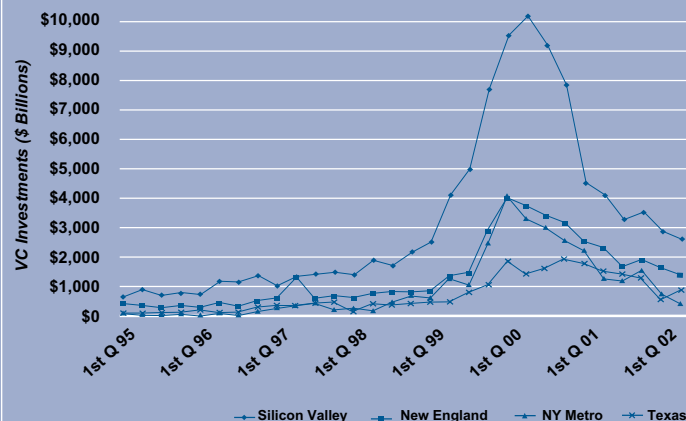
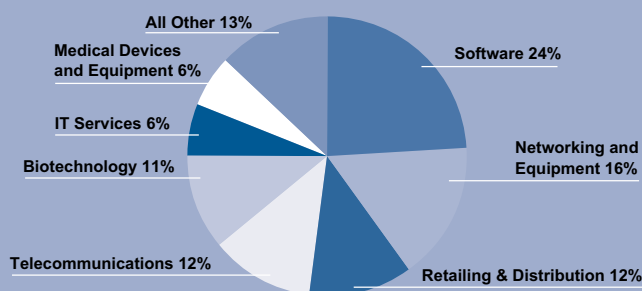


figure 2-16

Distribution of venture capital investments in Massachusetts, 2001



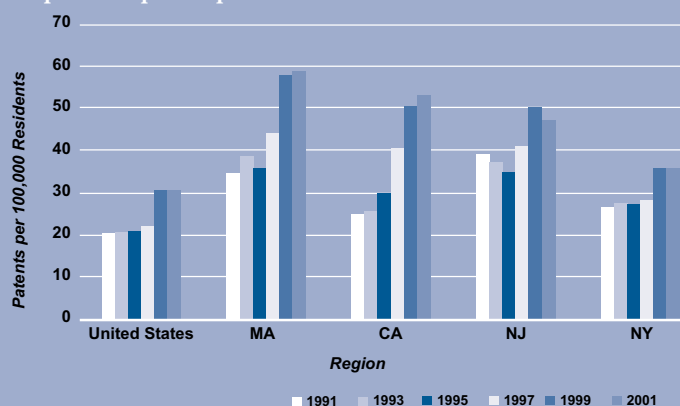
Source: PricewaterhouseCoopers/Venture One, as reported by the Massachusetts Technology Collaborative

Over the past decade, Massachusetts has attracted about ten percent of total VC investment in the United States, an extraordinary sum in per capita terms. This funding vehicle helped Massachusetts remain a leader in patent awards and generated a large number of “gazelles” – publicly traded companies that grow twenty percent or more per annum for four years running. VC funding boomed in the late 1990s, and peaked in fiscal 2000, clearly an aberrant year. Firms located in the Commonwealth secured \$8.8 billion in venture funding in 2000 which exceeded \$3 billion in the first quarter alone. VC investment has since fallen significantly. As a result, technical entrepreneurs have had to seek corporate sponsorship or scramble to find ways to increase cash flows from operations.

Increased private investment encourages entrepreneurs

figure 2-17

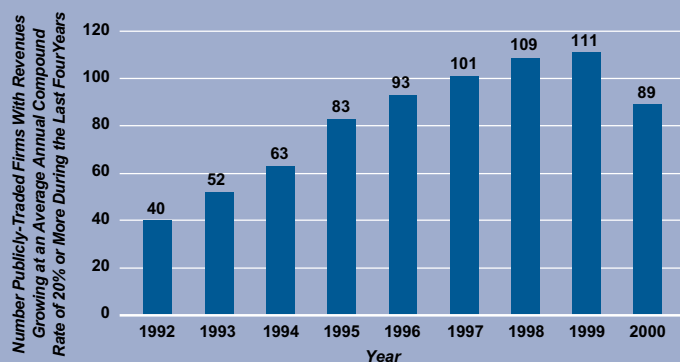
Massachusetts is the national leader in patents per capita



Source: US Patent and Trademark Office

figure 2-18

The number of “Gazelle” firms increased during the 1990s



Source: Standard & Poors Compustat, as reported by the Massachusetts Technology Collaborative

IT is now the fundamental tool of educated workers in business and the professions worldwide. It requires an enormous amount of intense, creative effort to fit these tools for the job. Massachusetts firms thus develop software components and tool kits in areas ranging from graphics, networking, and data management to “vertical” solutions for particular industries or professions.

Nearly every business and professional group now relies on a community of software and systems integration specialists to support their particular IT needs. These service providers often become intimately connected with these businesses and professions and their activities often cross over to adjacent IT activities. They move from software into systems integration or consulting; or augment a web-service venture by developing content or adding a critical software application. They also move into their client’s industries as well. The emergence of bioinformatics on the boundary between IT and biotech is typical. Interestingly, the Massachusetts Biotech and Software and Internet Councils both identify bioinformatics as a major opportunity for their respective industries. In knowledge-based economies, the most powerful “knowledge spillovers” often flow across industry lines in this way (see sidebar, *The Massachusetts IT Export Sector Shifts*, on page 24).

The lesson from the IT cluster, and the rise of the Internet in particular, is that innovation is an incredibly dynamic process. The underlying technologies and business models are continually evolving, dividing, and merging. Knowledge-based economies must be analyzed over time rather than at a particular moment. Thus, the Massachusetts minicomputer industry of the 1980s is best seen as a powerful convergence of technical and economic resources in a larger economic stream. It held together for about two decades, then came undone in the early 1990s. Those resources flowed into succeeding computer architectures, and out into communications, systems integration, software, Internet development, and other new dynamic industries within the IT sector as well as along its fuzzy borders. The recent sharp drops in demand in the Internet and telecom businesses foreshadow another economic cycle of adaptation and diffusion.

The Dynamics of Plastics: Leveraging Traditional Industries

Plastics was among the Commonwealth’s most successful “traditional” manufacturing industries in the 1990s. While essentially all Massachusetts manufacturing industries lost jobs during the decade and overall manufacturing employment fell more than fifteen percent, business in plastics was brisk and employment rose by more than ten percent.²⁶

Plastics is “traditional” in that the industry relies on more typical “shop floor” manufacturing and is dominated by small, locally owned firms, primarily in the central and western parts of the State. They typically employ up to 45 employees, mostly on the shop floor.

Approximately 700 such companies in the Commonwealth make a wide range of products, which can be grouped into three main categories: 1) packaging, such as plastic bags and packing materials; 2) high-volume commodity items, such as pails, cosmetic tubes, and disposable cutlery; and 3) specialty products, such as parts for aircraft, automobiles, medical devices, computers, and telephones. Also considered “traditional” are the economic advantages and challenges facing Massachusetts plastics manufacturers.²⁷

- **The industry’s main competitive advantage** is the quality of employee metalworking skills in the Commonwealth. Plastics manufacturers generally use injection-molding machines that need precision molds for efficient production and to make a premium product. Thus, the pieces from different Lego® sets snap together cleanly because they were all made from high-quality precision molds. Mold making is a branch of tool and die making, a well-known Massachusetts manufacturing skill set. While precision molds are important in all branches of the industry, they are critical in the production of specialty parts for other manufacturers.

- **The industry’s main competitive disadvantages** are a lack of adequate space and the high cost of energy and transportation. The industry needs modern one-story buildings with good rail, road, water, sewer, gas, and electric connections. Such space is in short supply and vacancy rates in Leominster, the center of the Massachusetts plastics industry, fell below five percent at various points during the 1990s. Energy and transportation costs in the Commonwealth are relatively high and represent a significant percentage of total production costs. As a result, Massachusetts manufacturers primarily sell to customers in the New England and Mid-Atlantic states. While there was a flurry of interest in overseas markets in the early 1990s, exports remain less than ten percent of total industry sales.

What differentiated plastics from other traditional Massachusetts manufacturing industries was a sharp increase in product demand, not a dramatic shift in productivity. The industry did not suddenly become more competitive than other traditional Massachusetts manufacturers. Instead, it benefited from a major increase in the use of plastics, for items such as bottles and auto parts, and from a surge in sales of items such as computer wiring and cabling and shells for phones, laptops, and other types of office equipment.

As in most other traditional Massachusetts industries, the knowledge-based economy had a very different impact on plastics than it did on the biotech or IT industries. A survey of manufacturers in the North Central region found little contact with the Commonwealth’s top-tier academic plastics programs at UMass Amherst and UMass Lowell. Nor did these manufacturers see much value in developing a local plastics technology center.

Manufacturers did, however, identify worker training as their primary need. Skilled mold-makers have been in short supply since the demise of apprenticeship programs in the 1960s and 1970s. Today's mold-makers need training in CAD-CAM programs, an important upgrading challenge for firms and workers, as well as in traditional mechanical skills. Workers who operate modern computerized injection molding machines also need training to set up, monitor, and maintain the equipment. As Asian and Hispanic immigrants now make up one quarter of the workforce, the industry also needs remedial English as a second language (ESL) programs.²⁸

Raising the level of workforce skills has been difficult. The problem is a lack of utilization, not of programs. Institutions such as the Center for Technical Education at Leominster High School and Mount Wachusett Community College offer highly regarded instruction. But many companies in the industry are small. They don't have the management resources necessary to stay abreast of current offerings or to get their workers involved. There is also a "market failure" dilemma: Workers who get trained capture the bulk of the benefits in the form of higher market wages. So employers have little financial incentive to pay for the training. Workers, on the other hand, often lack the time and funds to pay for the programs. Many are also unwilling to bear the risk that the investment of time and money will not lead to a better job and higher pay.

Although the knowledge-based model has not penetrated very deeply among the Commonwealth's plastics manufacturers, three ventures illustrate its potential to transform traditional Massachusetts industries:

- Ongoing efforts by local business and government to strengthen the industry cluster and to develop networking opportunities. This includes efforts to improve rail service and lower electricity rates and the organization of massPlastics, a major tradeshow held every 18 months in Fitchburg. The City of Leominster and the local Chamber of Commerce have also collaborated on various initiatives to rationalize worker-training programs and provide access to UMass faculty at Amherst and Lowell.
- Plastics.com, based in Fitchburg, is a Web portal created by Greg Koski, a UMass-Lowell-trained plastics engineer with extensive experience in management and communications. The site is a networking initiative that targets "plastics professionals" ("professionals being a more elegant name for "knowledge workers"). It promises "the ultimate peer-to-peer experience, providing actionable information, tools, and services to help members get their jobs done." The site offers technical and business information, on-line training and "forums" for discussing specific technical or business issues, a service connecting manufacturers and customers, and a marketplace for buying and selling new and used equipment.

- Nypro, based in Clinton, has emerged as an enormously successful knowledge-based plastics manufacturer with \$500 million in sales and plants in a dozen countries around the globe. The company has extended its value proposition far beyond molding to offer "complete product outsourcing" – integrating backward into product design and forward into product assembly. It uses sophisticated IT systems for supply-chain management and to keep its customers and far-flung operations continually in the loop. Clinton houses the company's headquarters, its product design and development center, one of two precision mold-making centers, a substantial molding facility, and its innovative educational initiatives –the Nypro Institute and Nypro Online. The Institute is Nypro's corporate training center and works with colleges around the world to offer English language and high-school equivalency instruction, as well as undergraduate and graduate programs in business and engineering subjects. Nypro Online, run in conjunction with UMass-Lowell offers college-level courses in plastics engineering and a certificate in plastics technology to the entire industry. For such efforts, Nypro won the 2001 University of Massachusetts Employee Education Circle of Distinction Award.²⁹

Challenges Moving Forward

These three case studies illustrate the new dynamics of economic development at the industry cluster level. They highlight the importance of the four underlying factors identified above and their contribution to the Commonwealth's generally successful response to the sharp downturn of the early 1990s. They also underscore our primary economic challenges going forward:

1. **Knowledge workers** –clearly the most important resource in the "new" Massachusetts economy.
2. **Networked entrepreneurship** – the primary means for mobilizing resources in industry or urban clusters.
3. **Globalization** – which has profoundly reconfigured market opportunities and the competitive environment.
4. **Quality of "place"** –the quality of life in our communities is not just an ultimate economic objective, but is now a critical factor in the global competition for knowledge workers and knowledge-based industries.

²⁶ The percent change figure for employment in plastics is taken from CES 790 data for SIC 308 – "Miscellaneous Plastics Products."
<http://www.detma.org/lmi/dataprogram.htm>.

²⁷ This section relies on an interview with Todd Shimkus, Vice President of the North Central Chamber of Commerce, and Steven Landau, Steven Ellis, William Ennen, and Robert Forrant's, "Strategies to Support the Plastics Industry in North Central Massachusetts: A Report to the City of Leominster," UMass Donahue Institute, University of Massachusetts, March 2000.

²⁸ Interview with Todd Shimkus

²⁹ See the Nypro website, www.nypro.com.

Challenges Moving Forward: Knowledge Workers

Knowledge has become the fundamental instrument of value creation in the New Economy. As such, the Commonwealth devotes an enormous amount of resources to its educational and training programs. The majority of our young people now go to college and a good portion will spend nearly twenty years in school. Periodic training to upgrade one's skills is now routine for lawyers and physicians as well as shop floor workers. And the returns to these investments have been excellent.

The primary risk going forward is the limited reach of these programs. The 1990s were marked by significant shortages of science, engineering, health care, and education professionals. While the incomes of college-educated workers soared, those without a four-year degree earn little more today than they did in the difficult years at the beginning of the decade.³⁰

Expanding access to higher education is one clear response, and the proportion of Massachusetts workers with a college degree rose smartly in the 1990s. Employers in both biotech and plastics would gladly hire production workers without a four-year degree if they had the proper skills. Both groups of employers highlight a serious shortage of workers trained to operate today's sophisticated production equipment. Most workers with a high-school diploma or less find employment not in production, but in service occupations – in hotels and restaurants, medical and nursing facilities, building maintenance and security, and the like.³¹ In these occupations as well, training can augment worker skills and lead to greater productivity and income³² (see figure 2-19).

Our challenge is to develop an education and training system that upgrades the skills and efficiency of our workforce in response to labor market demands. What complicates the task is a serious deficiency in the basic skills needed to compete. One-

third of the Massachusetts workforce – 1.1 million Massachusetts workers – lack a high school diploma or GED, speak or write limited English, or have significant deficits in basic verbal or quantitative skills.³³ As the Massachusetts workforce historically grows quite slowly, upgrading the skills and efficiency of current workers is nevertheless the most effective way to provide an adequate supply of knowledgeable workers to a growing economy.

Challenges Moving Forward: Networked Entrepreneurship

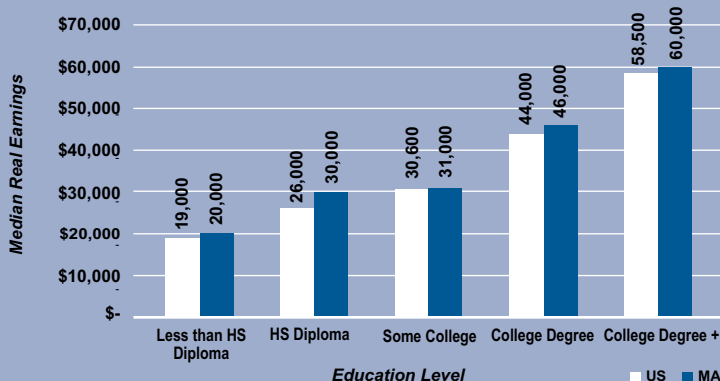
The Commonwealth's urban and industry clusters are incredibly rich in resources, firms, and workers who use a web of local connections to access critical inputs and opportunities. This is "networked entrepreneurship," the focus of AnnaLee Saxenian's book comparing Silicon Valley to Route 128. What Saxenian did not foresee, however, was the flexibility and strength of networked entrepreneurship in Massachusetts. It underlies the successful reorganization of our IT cluster after the fall of the large, vertically integrated minicomputer makers. It also allowed our biotech industry to respond to the precipitous drop in VC funding and turn toward corporate sponsorship – to shift its attention away from building tools and "promise" to focus on concrete drug development.

The primary challenge moving forward is the limited reach of our entrepreneurial networks. Many small firms and workers simply do not have the capacity needed to participate in these networks. As Boston is the center of the State's most vibrant entrepreneurial networks, distance significantly diminishes their usefulness for many firms and workers in the Commonwealth. Even within Boston, race and a lack of proficiency in English can restrict participation. A major consequence of this limited capacity is insufficient access to training and technical assistance, as seen in the plastics industry in the North Central region. Distance from Boston and weak entrepreneurial networks in many industries and regions limits access to capital, especially venture capital, and to technical and informational resources that are abundantly available in the Commonwealth.

Expanding the reach of our entrepreneurial networks is the task of Massachusetts' trade associations, such as the Biotech and Software and Internet Councils; local governments and Chambers of Commerce, such as the plastics initiatives underway in Leominster; and entrepreneurial ventures such as plastics.com. In labor markets, intermediaries such as professional associations, unions, and

figure 2-19

Education and Knowledge-Based Skills Are Essential in Today's Economy



A. Sum et al., Earnings of Workers in Massachusetts and the United States. MassINC, December 2001.

³⁰ Andrew Sum, et al., *The Annual Earnings of Workers in Massachusetts and the United States*.

³¹ These occupations are most prevalent among workers with a high-school education or less in the Boston metropolitan area, reports Richard LaRock, research assistant at the Center for Urban and Regional Policy at Northeastern University.

³² Joan Fitzgerald and Virginia Carlson, "Ladders to a Better Life," *The American Prospect*, June 19-July 3, 2000.

³³ John Comings, Andrew Sum, Johan Uvin, et al., *New Skills for a New Economy: Adult Education's Key Role in Sustaining Economic Growth and Expanding Opportunity* (Boston: MassINC, December, 2000).

social service agencies have also been able to support networks that expand worker productivity and provide access to better jobs.³⁴

Maintaining our competitive strength in advanced academic research is an especially critical challenge. Many competing states have adopted a research-led economic development strategy and are investing heavily in university R&D facilities. One indication of their competitive success is Massachusetts' declining share of federal R&D funds. If Massachusetts were to lose this competitive edge, our entrepreneurial networks would lose a key competitive advantage in today's knowledge-based economy.

Challenges Moving Forward: Globalization

Globalization presents enormous opportunities. The knowledge-based goods and services we produce are especially attractive to overseas markets, and overseas sales generate a major portion of the Commonwealth's export earnings.

Globalization also brings new challenges. Massachusetts firms now compete with many powerful, fast-moving high-tech overseas rivals. While most of our traditional manufacturers sell to domestic markets, foreign producers also increasingly offer vigorous competition.

Our most critical challenges, however, increasingly arise from limited access to global markets. Access to these markets is increasingly dependent on access to the Internet. The Web is the new "face" of the marketplace, and it knows no national boundaries. Yet Massachusetts communities and regions lack affordable broadband service. Left unaddressed, this limited access will severely impede their participation in the new world of business.

Another challenge arising from limited globalization is the lack of institutions that can maintain macroeconomic stability. Recent swings in global demand have been large and have exacerbated economic swings in the Commonwealth. Thus, Massachusetts merchandise exports surged by one third in the boom year of 2000, then fell back to their former level in a weak 2001.³⁵

Our final challenge is the enhanced need for security. The September 11 attacks damaged the global marketplace, added significant costs to trade and travel, and cut worldwide demand for goods and services provided by our knowledge-based industries. More broadly, as described in *The Lexus and the Olive Tree*, unprecedented mobility and access give individuals the power to shape market outcomes and effect nations.³⁶ Going forward, we need the means to protect our citizenry and economy from untoward exercise of that power.

Challenges Moving Forward: The Quality of "Place"

Firms and workers have long been attracted by the quality of life in our communities. In this new age of the mobile knowledge worker, it has become a major competitive advantage.

The main challenge moving forward is to ensure that economic development strengthens rather than diminishes our quality of life. Development typically puts pressure on real estate prices, the environment, and existing infrastructure. Thus, in the boom years since 1997, the median price of a single-family home in the Boston metro area doubled to hit \$367,000 in 2001.³⁷ Many citizens of the Commonwealth can no longer translate income gains into home ownership. Real estate development, moreover, has increasingly taken the form of sprawl, which generates pollution, congestion, and a general degradation in the quality of life.

The primary risk moving forward is to accommodate economic development while maintaining and enhancing our quality of place. Rapid economic growth along Interstate 495 highlights the challenge before us. The corridor offers attractive countryside, New England charm, more reasonably priced housing, access to both Boston and vibrant recreational areas, and rapid growth in high-paying jobs. The highway itself, however, runs along the boundaries separating many different watersheds and political jurisdictions. Building new sewers and schools and relieving congestion on the area's roads have emerged as critical economic development issues along the corridor.³⁸

The challenge before us is to develop a vibrant knowledge-based economy while preserving critical environmental and quality-of-life assets. We need an infrastructure that responds to the need for knowledgeable workers; that enables networked entrepreneurship throughout the Commonwealth; that gives broad access to the opportunities offered by globalization while effectively responding to its threats; and that strengthens the quality of "place." These are the leverage points of a new strategic framework for economic development. Their identification also highlights the importance of developing new economic objectives for this new economic time.

³⁴ See Fitzgerald and Carlson, "Ladders to a Better Life," to see how labor-market intermediaries have organized career ladders for low-paid urban service workers that involve training and certification and the expectation that workers will "hopscotch" up from one employer as they make their way forward. This approach, which parallels the model set in sophisticated knowledge-based industries, demonstrates the importance of education and training throughout the economy. It also underlines the importance of entrepreneurial networks to make such an economy operate effectively.

³⁵ Merchandise exports are used to track overseas sales because data is available on this component of Massachusetts exports. See the Federal Reserve Bank of Boston's New England Economic Indicators Database, <http://www.bos.frb.org/economic/nee/needata/totexp.csv>

³⁶ Thomas Friedman (New York: Farrar, Straus, and Giroux, 1999).

³⁷ <http://www.bos.frb.org/economic/nee/needata>

³⁸ Sarah Kuhn, "Interstate 495 West," *Massachusetts Benchmarks* Fall 2000.

toward a shared vision for Massachusetts in the new economy

Choosing to Compete proposed a vision for Massachusetts that went beyond the traditional economic development objectives of job growth and economic prosperity to include regional equity and broad economic opportunity. This vision also highlighted the importance of a good quality of life (see box, *The five elements of the “Choosing to Compete” vision*). A central theme in *Choosing to Compete* was that Massachusetts could achieve these objectives by enhancing the competitiveness of the Massachusetts economy in the national and global marketplace.

The five elements of the “Choosing to Compete” vision

- A rising standard of living
- Job growth
- Regional equity
- Broad economic opportunity
- A high quality of life

This chapter re-examines the vision articulated in *Choosing to Compete*. It will assess the Commonwealth’s progress using the benchmarks proposed in that document. While this benchmarking is instructive, Chapter 2 highlights several dynamics that enhanced our competitiveness and eased the State’s adaptation to the dramatic structural changes in the economy that took place during the 1990s. These factors also require us to re-examine that vision as we develop a new strategic framework for the New Economy.

Given the increasing importance of place and workforce mobility, as highlighted in Chapter 2, improving the quality of life in the Commonwealth has emerged as an overarching goal. Broadly defined, “quality of life” includes jobs, prosperity, and regional opportunity, as well as environmental sustainability, a healthy and safe citizenry, and a strong civic culture. This chapter will develop the foundations of a new vision aimed at enhancing quality of life in all corners of the State.

With such a vision in place, we can then turn to the development a strategic framework for economic development in the Commonwealth. This framework will focus thought and action on policy options that support this vision and our prosperity over the long term. This vision and related strategic framework must be shaped by a review of our previous policy initiatives and their impact on economic growth and competitiveness.

Building Competitive Advantage: A Look at Economic Progress and Challenges Over the Past Decade.

As highlighted in Chapter 2, Massachusetts’ recovery from the deep recession of the early 1990s and its adaptation to dramatic structural changes in the economic environment is impressive. In many important ways Massachusetts has been a leader in a shift to a knowledge-driven, technology-led, and increasingly global economy. This transition has had significant impacts on firms,

workers, families and communities, which can be evaluated against the vision put forth in *Choosing to Compete*. The following analysis highlights the State's progress and underscores remaining challenges.

A high standard of living

The Commonwealth has made significant progress in improving the standard of living for many of its citizens. During the 1990s, real per capita personal income – that is, income adjusted for inflation – exceeded overall U.S. levels. The growth in income remains especially strong in our knowledge-based export industries.

While significant progress was made, a number of important challenges remain. Most notably, as Figure 3-2 shows, median real household income in the Commonwealth remains flat. This indicates that the middle-income wage earners have not shared in the gains of the past decade. A major factor limiting the growth of average and median real income measures was a sharp rise in housing prices. Homeowners have benefited from this appreciation, and standard income measures fail to capture that gain. Rising home prices, however, have seriously eroded the prosperity of non-homeowners, making it difficult for many Massachusetts workers to afford a first home.

Job growth

Choosing to Compete targeted employment growth and low levels of unemployment as key objectives. Employment data indicate that Massachusetts has been successful in meeting these goals. Despite severe adverse shocks to our export sector in the early 1990s, as seen in job losses, unemployment declined steadily over the decade, going from well above to well below the national average (see sidebar *Goal: Job Growth*, pg.34). Employment growth was also brisk, rising at essentially the national rate.¹

Looking forward, the declining population in the 18-24 age cohort presents a different challenge. This age group represents a critical mass of future workers and a base of potential entrepreneurs. How well the State responds to this coming demographic decline will have a major impact on our economy for years to come.

Strong regional economies within the State

Choosing to Compete emphasized the need for the State to build strong local economies by capitalizing on unique regional strengths. That all regions shared in the declining rates of unemployment suggests important progress. However, there have been clear disparities in wage and employment growth across regions (see sidebar *Goal: Strong Regional Economics*, pg. 37 and 38). Greater Boston posted impressive gains, but the Pioneer Valley,

¹ Since 1970, employment growth in the Commonwealth has lagged the national rate by 3/4 of a percentage point; in part because our employment growth has been slower, unemployment has averaged 1/2 of a percentage point below the national rate. Despite the severe hit to our major export industries at the beginning of our decade, our economy has significantly outperformed these long-term benchmarks.

Goal: High Standard of Living

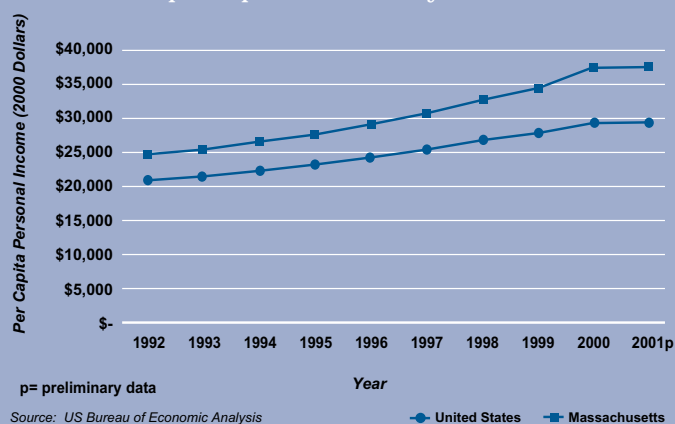
The vision outlined in *Choosing to Compete* included a high standard of living, as defined by high per capita income relative to the regional cost of living. The state sought to reduce the cost of doing business in the state, increase private investment and improve the capabilities of the workforce. *Choosing to Compete* outlined many specific actions that the state could undertake to realize its vision, including: promoting fiscal stability, modifying business regulations, streamlining the permit approval process, promoting private investment and technology transfer, and reducing business costs.

Per capita income exceeds U.S. average...

Since 1992, real per capita personal income in Massachusetts has risen 24 percent, compared to the national average of 14 percent. The per capita figures are stated in real 2000 dollars, using the US CPI for urban consumers.

figure 3-1

Real income per capita rose smartly



...but median income was stagnant during the 1990s.

Census Bureau data shows that, between 1989 and 1999, median real household income increased slightly in Massachusetts while the national average increased at a faster rate.

The rising per capita personal income and the flat median household income indicate that most Massachusetts households earn the same income today as they did in 1993 while higher-income households are earning significantly more.

(Continued on next page)

Goal: High Standard of Living (continued)

High housing costs impact the Commonwealth

Housing affordability is a large factor in the cost of living and is an important determinant in many workers' decisions to relocate. Recent prosperity has contributed to the rising price of homes, which in Massachusetts may offset any potential gains in the increase of the per capita personal income. From 1996 to 2000, the median price of single-family homes in Massachusetts increased 47 percent, from \$153,000 to \$225,500. In comparison, national figures increased 24 percent, from \$131,000 to \$162,000.

The graph highlights the rising "affordability gap" between median family income and the income required to purchase a home in the metropolitan Boston area. As proposed by the U.S. Department of Housing and Urban Development, the price of a home should not exceed 2.5 times a household's annual income. The median home price in the region has increased to over \$300,000 in 2000. The difference between median family income and the income needed to purchase a median-priced home has also increased substantially. In 1993, the "affordability gap" equaled 37 percent of median family income. In 2000, it equaled 92 percent of median family income.

Homes are often the most significant source of household wealth, so the rise in home prices benefited Massachusetts homeowners. However, the high price of housing resulted in home ownership rates in the Commonwealth falling from 62 percent in 1996 to 60 percent in 2000. Over the same period, national home ownership rates increased from 65 percent to 67 percent.²

figure 3-2

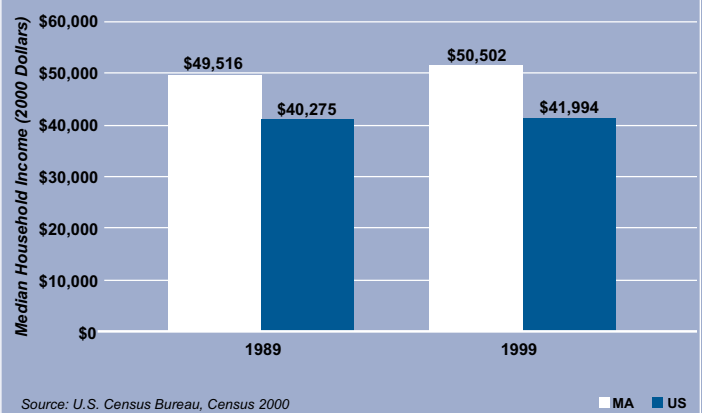
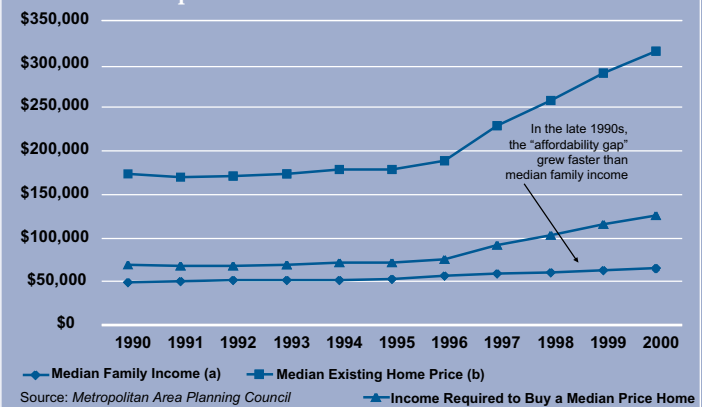
Real median household income

figure 3-3

Housing Affordability Trends in the Metropolitan Boston Area

the Berkshires, and the Southeast regions had a far more difficult decade. The sharp decline in the number of young adults, and projected slow-growing workforces in all regional economies, also portends further challenges to promoting economic growth and entrepreneurship across the Commonwealth.

Broad economic opportunity

Choosing to Compete proposed a vision that promoted broad economic opportunity for all. While all population groups have seen the benefits of increased employment, African-Americans, in particular, did not fully participate in the Commonwealth's robust growth during the 1990s. Unemployment in many cities also remains chronically high, running 50 percent above the statewide average in cities like Fitchburg, Lawrence, Springfield, Fall River, and New Bedford. Many communities throughout the Common-

wealth continue to have limited access to affordable high speed internet service. Thus, while overall economic progress has been significant, extending economic opportunity to all Massachusetts regions and communities remains a significant challenge (see sidebar, *Goal: Broad Economic Opportunity*, pg.38).

A high quality of life

Choosing to Compete insisted that economic development need not come at the price of environmental degradation. While many see economic and environmental goals at odds, the document promoted a vision in which the two objectives were compatible. The results achieved over the course of the past decade are a testament that such progress is possible (see sidebar, *Goal: A High Quality of Life*, pg.41). A more collaborative approach to business and environmental regulation, in particular, resulted in enhanced

pollution control. Success has been accompanied by new challenges, such as sprawl. If not addressed, these new challenges threaten the essential quality of life that is New England and uniquely Massachusetts.

A review of the previous decade from the perspective of the vision developed in *Choosing to Compete* is instructive. Much has been accomplished in achieving that vision, but significant challenges remain. Before moving forward, however, we must understand the role of government in supporting economic competitiveness. In particular, we need to see how government can contribute by participating in the entrepreneurial networks highlighted in Chapter 2.

Developing a Policy Framework: Understanding the Role of Government

Choosing to Compete emphasized the importance of a shared leadership role for State government. The Commonwealth, it declared, had to be “an effective economic development partner with local and regional interests throughout the State, providing the incentives and assistance to promote competitiveness”.³

The economy has since changed in ways that have significantly increased the importance of this partnership with business and with non-governmental organizations and other levels of government. The relationship between business and government in the past has often been adversarial. In today’s increasingly networked, knowledge dependent economy, we need far more flexibility and cooperation.

Building a Vision for the New Century: Understanding the New Economic Landscape

To develop a shared vision for the Commonwealth’s future, we must identify the forces that will influence the State’s future economic prosperity. As highlighted in Chapter 2, four dynamic factors are likely to shape the competitive landscape going forward:

The knowledge worker - The increasing technological demands on workers points to the on-going importance of developing workforce skills. This is not only true for workers shifting to the expanded service sector, but for those employed in manufacturing as well. The need for upgrading skills is an ever-increasing challenge for both business and government. It is a challenge that extends across the lifecycle – from early childhood and K-12 to higher education – and to the need for lifelong education and training. An effective partnership between business and government is required to meet these education and training needs and to insure that Massachusetts remains on the frontier of innovation.

² Massachusetts Technology Collaborative, *Index of the Massachusetts Innovation Economy*, 2001. p.56

³*Choosing to Compete*, p.30.

Goal: Job Growth

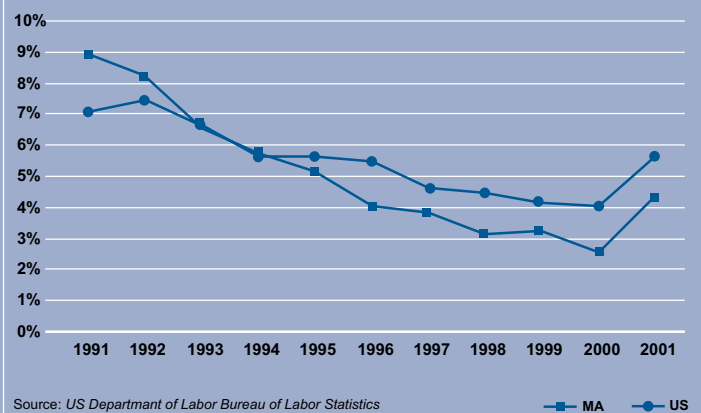
When *Choosing to Compete* was published in 1993, unemployment in Massachusetts was near an all time high. *Choosing to Compete* set out a strategy to stimulate job growth in the state by encouraging diversification of markets, products and companies in the economy. The strategy outlined a number of actions to increase employment, including the reduction of business costs, the promotion of private investment and technology transfers, and use of trade missions and export promotion programs.

Unemployment declined significantly...

The jobless rate fell far faster in Massachusetts than in the nation over the previous decade, falling by 48 percent from its high in 1991.

figure 3-4

Unemployment Rates



...but job growth exceeded labor force growth

Over the last decade, jobs in Massachusetts grew faster than the labor force, resulting in shrinking unemployment rates. Between 1992 and 2001, the Massachusetts labor force grew 4 percent. During the same period, the number of jobs in the Commonwealth increased 19 percent. By 2000, the state had more jobs than current or potential workers in its labor force. Some of these extra jobs were filled by Massachusetts residents holding multiple jobs. Commuters from other states also filled some of the jobs not filled by Massachusetts residents.

(Continued on next page)

Goal: Job Growth (continued)

New jobs were concentrated in the service sector

Most of the job growth in the 1990s emerged from the services sector. Between 1991 and 2001, the services sector employment reached 1.2 million, an increase of 38 percent. Employment in manufacturing decreased 13 percent during the same period.

The service sector now employs 37 percent of the state's workforce, up from 32 percent in 1990. In comparison, the manufacturing sector now employs 13 percent, down from 17 percent in 1990. As noted in *Knowledge Sector Powerhouse*, "Manufacturing's falling share of employment reflects both a shift in output from goods to services and reorganization of manufacturing production in ways that use fewer workers."⁴

figure 3-5

Labor force and job growth

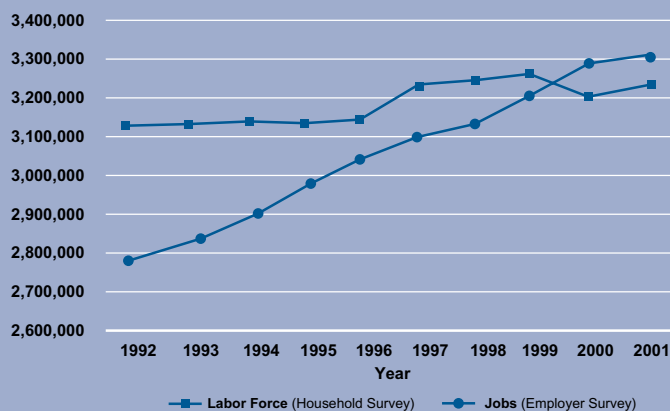
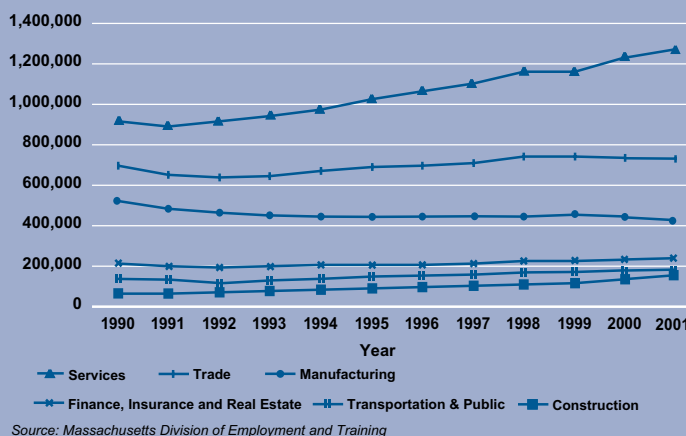


figure 3-6

Change in major employment sectors



This partnership must focus on science and technology as an essential building block of the evolving knowledge worker. Basic education, widespread access to affordable and high quality higher education, ready access to incumbent worker training programs, and systematic advances in science and technology form the core elements of a statewide vision for investing in human capital.

The networked economy - Economic trends in the U.S. and Massachusetts suggest that companies are seeking greater flexibility for themselves, their partners, their customers, and their government. The pace of technology as well as employment and migration patterns suggest that the large monolithic corporation is giving way to a set of dense, rich networks of companies and individuals that offer resources and opportunities. These economic networks are the entrepreneurial infrastructure of our export industry clusters and include firms, government agencies, academic institutions, industry associations, financial institutions, and a multitude of specialty providers. Information technology, particularly the Internet, has tremendously leveraged the exchange capacity of networked entrepreneurship. Increasingly, the role of government is to act as the convener of interests, helping establish links in this dense network of resources and opportunities.

The global marketplace - Advances in information and transportation technologies, combined with increased opportunities for trade have opened enormous new commercial frontiers. This market fusion changed the entire framework for economic exchange between regions, both internationally and within nations. The role of knowledge in production has become a truly transnational phenomenon. This creates increased opportunities as well as needs. To effectively compete, states and regions must place increased emphasis on building networks and clusters that trade outside the region. States and regions must also place increasing emphasis on infrastructure improvements, broadband deployment, and regional security.

The increasing importance of place - The mobile knowledge worker, who has more options on where to live than ever, is increasingly drawn to the physical and cultural amenities in a state. Given the strong tradition of "home-rule" in Massachusetts, the importance of place expands the need for state and local governments to work in partnership with firms and citizens to preserve and strengthen the quality of life in local communities. This trend underscores the economic importance of balancing growth with environmental sustainability.

A Shared Vision for Massachusetts in the New Economy

The current economic environment invites a re-examination of the Commonwealth's goals and objectives for economic development.

⁴ Robert Forrant, Philip Moss, and Chris Tilly, *Knowledge Sector Powerhouse* (Boston: Donahue Institute, University of Massachusetts, 2001).

It takes into account the five original goals outlined in “*Choosing to Compete*” as well as new objectives that emerged in the ensuing decade. This vision must then be realized through a policy framework suited to a knowledge-based economy. Ultimately, the priorities of economic development policy, as well as the composition of performance indicators, must be the product of a thorough political discussion, and defined through ongoing engagement with the public, the business community, and policy-makers.

While the economic landscape underwent dramatic shifts in the past decade, the bottom line for the people of Massachusetts continues to be a high quality of life. This objective broadly defines citizens not only as workers, but also as parents, students, neighbors, and stakeholders in the full range Massachusetts institutions – from its universities to its farms and firms. As in the past, maintaining a high quality of life requires a constant effort to balance the costs and benefits of economic growth, with special attention to regional distributions and the breadth of economic opportunity. Yet people and firms are more mobile today than ever before. *For this reason, an enhanced quality of life emerged as a necessary investment in the future growth prospects for the Commonwealth.*

Quantifying progress toward economic development goals is a challenging task. This is particularly so when considering the level of overlap and linkages between various objectives. The new vision and measurement of state economic performance should include a series of indicators that capture progress towards the achievement of individual goals. Measurement should also acknowledge the complementary, and potentially contradictory, relationship between goals. For instance, job growth needs to be understood within the context of educational opportunities and workforce development. Industrial expansion must be balanced against sustainability and environmental considerations.

The vision must bring together the lessons of the past decade and the continued imperatives for a competitive Massachusetts. The vision proposed for the State’s business leaders, policymakers, and citizens incorporates the first four elements of *Choosing to Compete* and includes three new key elements – environmental sustainability, healthy and safe citizens, and a strong civic culture. Collectively, these elements form the core of a new vision for economic competitiveness centered on the overarching goal of a high quality of life.

An Overarching Goal: High Quality of Life.

Economic development sits at the nexus of a broad array of quality of life issues that are cultural, social, and communal in nature. Progress in all these areas is not only a basic, but a justified expectation of our citizens. It has become an integral *competitive* factor that underlies the success of our whole economic development strategy. In many ways, quality of life is a meta-goal, incorporating all of our objectives for economic development and requiring a

comprehensive set of indicators to accurately represent the State of affairs for our citizens and their communities.

Key Elements: A High Quality of Life

High and rising standard of living

Job growth

Strong regional and community-based economies

Broad economic opportunity

Environmental sustainability

Healthy and safe citizens

Strong civic society

A high and rising standard of living - This is defined as high per capita income relative to regional costs of living. The Commonwealth has made important progress as evidenced by gains in per capita income. However, the rising cost of living in Massachusetts, driven in large measure by dramatic increases in housing prices, has undermined efforts to raise the standard of living of our residents. Per capita and median household income measures are both important. Rising values for both indicate a widely shared rising standard of living.

Performance Indicators: Increasing average and median personal real income – both per capita income and the income of the middle-rung worker, after adjusting for changes in the cost of living.

► **Job growth** - This goal incorporates policies that encourage the development of quality, high-income positions in the State and, of equal importance, developing and attracting the human capital necessary for vibrant economic growth in the new knowledge-based economy. The Commonwealth must also develop measures that help attract and retain college graduates as a means to augment the supply of workers and potential entrepreneurs in the 18-24 cohort.

Performance Indicators: Employment growth and the unemployment rate in the State. Employment growth in export industry clusters.

► **Strong regional and local economies** - Focused attention must be paid to ensure that economic development takes place throughout the Commonwealth. These efforts must leverage unique strengths and address the particular weaknesses of individual regions. There must be a sustained process of strengthening regional, national – and of particular importance – international linkages that are becoming critical variables in determining economic success.

Performance Indicators: Regional employment levels, employment growth, unemployment rates, and per capita and median real income are the standard measures. Attention should also be given to digital and physical infrastructure growth, and encouragement of innovation and technology centers supporting regional export clusters.

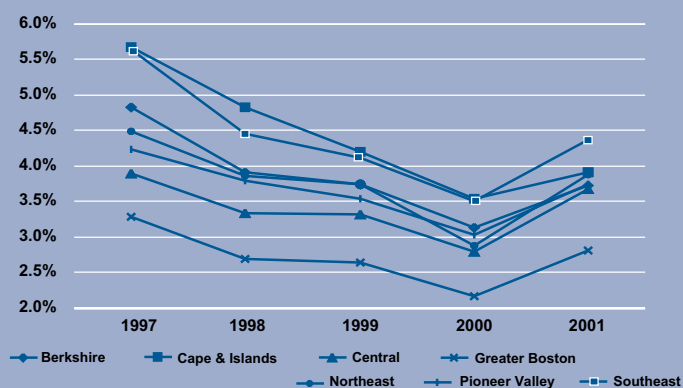
Goal: Strong Regional Economies

A major emphasis of *Choosing to Compete* was to insure that economic development planning occurred at regional and local levels. The goal was to create vibrant regional economies that provided jobs and economic opportunity throughout the Commonwealth. Specific actions that the strategy included the delivery of regionally responsive economic development services, the formation of local and regional economic development strategies, and the creation of region-specific training programs.

Unemployment rates declined in all regions...

Unemployment rates have dropped in all regions of the Commonwealth. The Greater Boston region has maintained a consistently low unemployment rate relative to the other regions. The Berkshire and Cape and Islands regions have experienced consistently higher rates.

figure 3-7
Unemployment Rates by Region, 1997 to 2001



...but disparities in regional wages remain

Over the past decade, average real wages in Massachusetts have risen. However, this rise is primarily due to the steep increases in the Greater Boston and Northeast regions. The Central and Cape and Islands regions recorded modest gains while average real wages in the Berkshire, Pioneer Valley, and Southeast regions showed little improvement.

Disparity in household incomes across the Commonwealth

Uneven wage gains contribute to varying rates of change in household income. Between 1990 and 2000, real household incomes in Massachusetts increased 2 percent. Median

figure 3-8
Real Average Wages by Region, 1990 to 1999

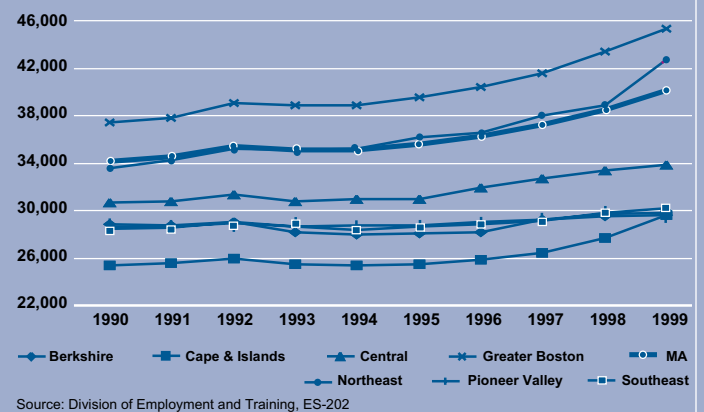
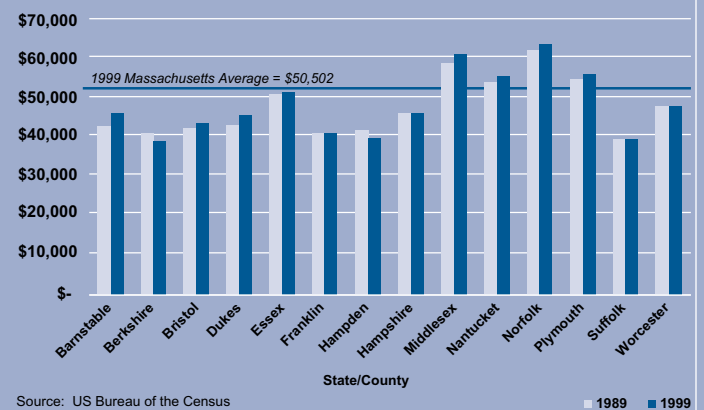


figure 3-9
Real Median Household Income, by County



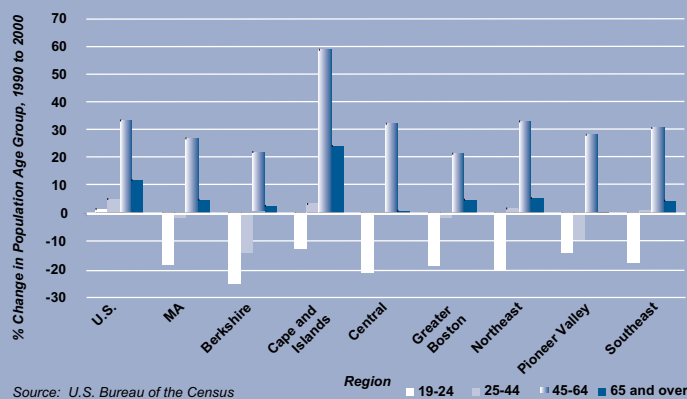
household income in Barnstable, Bristol, Dukes, and Middlesex counties experienced growth rates exceeding the state average. In contrast, median household income in Berkshire, Hampden, Suffolk, and Worcester actually declined.

Demographic changes in all regions suggest workforce challenges

All the regions experienced a decline in the 19-24 age group. Three regions experienced modest growth in the 25-44 age group. Declines in this group occurred in four regions, most notably in the Pioneer Valley and the Berkshires.

These patterns point to a shortage of young people in all regions of the state. Apart from implications for the size of the future workforce, this trend has negative implications for the future health of entrepreneurship in Massachusetts. A study by the Global Entrepreneurship Monitor (GEM) notes that

figure 3-10
Population Change by
Age Group US and Massachusetts

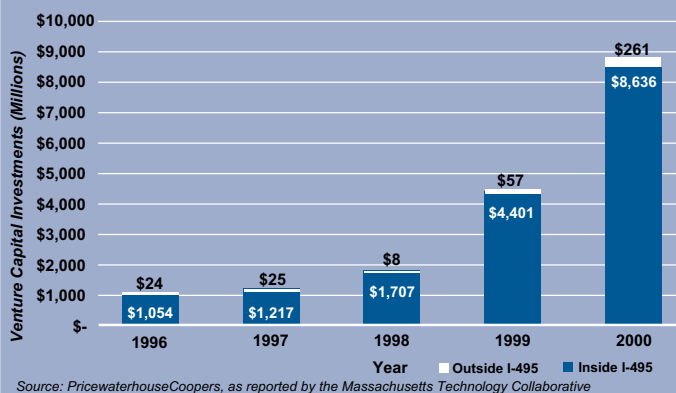


entrepreneurship activity is highest in the 25 – 44 age group (see Chapter 4, footnote 1).

Venture investment remains concentrated in the Greater Boston region

The preponderance of venture capital investment has gone to firms inside Interstate 495. While this highlights important regional specialization, growing knowledge-based export clusters in all regions would benefit from increased investment throughout the Commonwealth.

figure 3-11
Venture capital investments in Massachusetts,
inside and outside Interstate 495



Goal: Broad Economic Opportunity

The authors of *Choosing to Compete* noted that certain geographic areas of the Commonwealth would require exceptional job creation measures. These areas did not benefit from the prosperity created by prior economic booms and the human capital and physical assets in these areas remained underutilized. The strategy outlined in *Choosing to Compete* called for the state government to target job creation incentives in economically distressed areas by promoting private investment, providing technical and job training assistance, improving infrastructure, providing special assistance to minority owned enterprises, and improving basic education.

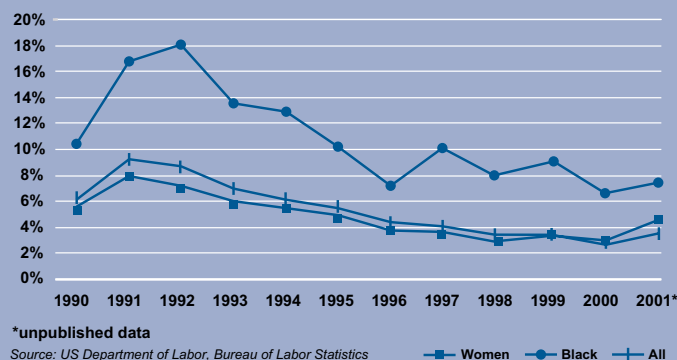
Minority unemployment rates declined

Over the last decade, unemployment figures dropped statewide and for women and Black residents.

The unemployment rate for women has been consistently below the statewide average. Between 1991 and 2001, the unemployment rate for Black residents has been consistently above the statewide average. Unemployment has dropped 53 percent statewide and 60 percent for women. One disturbing finding is that unemployment among Black residents increased from 1996 to 1997 before recovering slightly in 1998, meaning that fewer Blacks took part in the economic boom of the late 1990s.

(Continued on next page)

figure 3-12
Statewide unemployment rates
for women and black residents



Goal: Broad Economic Opportunity (continued)

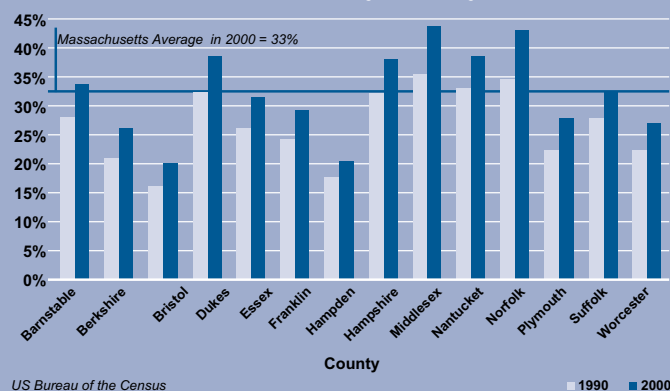
Unemployment in cities and regions remains relatively high

Many of the Commonwealth's cities continued to experience above-average unemployment rates. In 1993, three cities reported unemployment rates 50 percent higher than the statewide average of 6.9 percent: Fall River, Lawrence, and New Bedford. By 2000, the Commonwealth's annual average rate of unemployment fell to 2.6 percent. However, Fall River, Fitchburg, Lawrence, New Bedford, and Springfield experienced unemployment rates that were at least 50 percent higher during that year.

Progress on improving educational attainment was uneven

In 2000, over 33 percent of the Commonwealth's population aged 25 or more held a college degree, an improvement of 6 percentage points over 1990 levels. All counties in the state experienced an increase in the number of adults holding a BA/BS degree or more. Two counties, Middlesex and Norfolk, posted the largest rates of increase. These counties have shares of adult degree holders exceeding 40 percent. Five counties, Hampden, Bristol, Worcester, Suffolk, and Franklin, posted rates of increase that lagged behind the statewide averages. Four of these counties have shares of adult degree holders below 30 percent.

figure 3-13

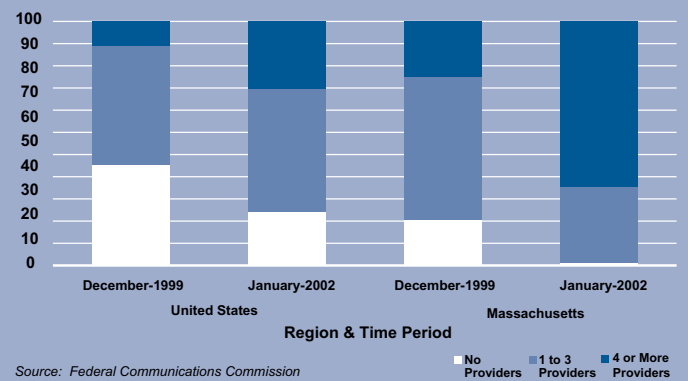
Share of Adult Residents with BA/BS Education or More, by County**Broadband access is critical to promoting broad economic opportunity**

Broadband, or high-speed Internet connectivity, has emerged as a fundamental component of the Commonwealth's economic infrastructure. Many Massachusetts communities lack access to affordable alternatives, such as cable modem or digital subscriber line (DSL) service.

Market forces have placed affordable broadband options primarily in our densely populated and more affluent communities. Large businesses can also get broadband connectivity virtually anywhere in the Commonwealth. However, rural businesses and individuals, as well as smaller businesses, field offices, and individuals in less affluent communities, often lack access to affordable broadband options.

In an economy increasingly based on information and speed, the lack of affordable broadband alternatives puts such individuals and small businesses at a significant competitive disadvantage.

figure 3-14

Share of All Zip Codes Served by High-Speed Internet Service Providers, by Region and Number of Providers

► **Broad economic opportunity** - Economic development cannot focus on narrow indicators, but must ensure that the benefits of economic development are widely and deeply spread among all citizens of the Commonwealth. Particular emphasis must be placed on the challenges confronted by minority populations in certain cities and regions. This includes access to financial and educational opportunities, as well as special attention to the “digital divide” and other barriers limiting participation in the emerging networked economy.

Performance Indicators: Employment levels, employment growth, unemployment rates, and per capita income are the standards across different population groups. Measurements for educational opportunity and the size and nature of the digital divide should also be included as indicators of broad economic opportunity.

► **Environmental sustainability** - The impact of economic development on the environment must inform all aspects of development planning, from technology infrastructure issues to transportation, land use planning, and affordable housing.⁵

Performance Indicators: Measures of environmental systems, environmental stresses and risks, human vulnerability to environmental impacts, social and institutional capacities, and regional stewardship.

► **Healthy and safe citizens** - The physical well being of citizens is a central responsibility of the State, particularly in the wake of the tragic events of September 11. This includes the availability of top health services, homeland security, adequate health insurance for all citizens, crime prevention resources, and measures to mitigate public health and environmental risks.

Performance Indicators: Measures include the percent of uninsured individuals and families, the cost of insurance to individuals, small businesses, and corporations; hospital inpatient and outpatient facilities; police and emergency personnel and resources; crime statistics; environmental risk assessments; and a strategic response to Commonwealth security.

► **Strong civic culture** - Social capital refers to the norms and networks that people can draw upon to solve common problems. Networks of civic engagement, such as neighborhood associations, sports clubs, and cooperatives, are an essential form of social capital. These networks have value, as they foster reciprocity and trustworthiness. In doing so, social capital contributes to quality of life and the productivity of our citizens.⁶ Massachusetts must continue to place a high priority on building “social capital” within the State, facilitating formal and informal connections between its citizens.

Performance Indicators: Voter turnout in national, state, and local elections; levels of voluntarism; numbers, types, and sizes of community meetings; number of charitable and non-profit service organizations, and community-building organizations (i.e. community newspapers).⁷

Approaching economic development with the central goal of promoting a high quality of life for all citizens in Massachusetts provides the necessary focus for a new strategic framework that will help the Commonwealth grow sustainably and provide an opportunity for all our regions and communities to participate in and benefit from this growth. The following chapter presents a framework designed for use by public and private sector leaders to help maintain and improve the economic competitiveness of their regions and to extend economic opportunity to all citizens of the Commonwealth.

⁵ Indicators taken from “*Pilot Environmental Sustainability Index: An Initiative of the Global Leaders for Tomorrow Task Force*,” World Economic Forum, January 2000. The “Index” was developed as a collaborative effort between the Yale Center for Environmental Earth Science Information Network (CIESIN) of Columbia University. The Index is meant to serve as a corollary to Gross Domestic Product and to provide countries with relative comparative measures of economic development and environmental sustainability. A similar Index could be developed to measure U.S. State progress towards environmentally sound development policies.

⁶ Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community*. Simon and Schuster, 2000. See Chapter 1 for a review of social capital.

⁷ Ibid. Note that several of these indicators are the result of survey instruments, while others come from selected data sources.

Goal: A High Quality of Life

Massachusetts has many elements that contribute to a good quality of life: historic landmarks, natural resources, excellent universities and medical centers, and world class social and cultural institutions. It is important to ensure the health and vibrancy of all of these elements, while also enhancing the economic competitiveness of the state. *Choosing to Compete* sought to minimize potential conflict between economic and non-economic goals. There are a number of strategies to do this, such as the development of regulatory strategies that de-emphasize command and control approaches, the promotion of technologies that improve competitiveness and reduce pollution simultaneously, such as energy conservation and pollution reduction, and the improvement of the infrastructure base. Over the past decade there have been success stories in all of these categories.

Emphasizing a more collaborative approach to regulation

The Commonwealth has become more responsive to the needs of business since the publication of *Choosing to Compete*. There have been significant improvements in the drafting and enforcement of environmental regulations, improvements driven in part by greater input from the business community. Executive Order 384, issued by Governor Weld in 1996, led to the rewriting or removal of many regulations. These steps have made it easier to do business in Massachusetts and have improved the perception of the Commonwealth as a place to do business.

In 1995, the Department of Environmental Protection (DEP) switched its permit approval process from a command and control based structure to a project management based structure. Now companies that need multiple permits for a project have one point of contact at the DEP, which assists these companies through the approval process. In some permit categories, the agency has adopted a self-certification approach. These changes at the DEP have made the permit approval process clearer and more understandable. These improvements leave Massachusetts more competitive in attracting businesses while also preserving the environment and quality of life.

Energy technology and pollution reduction

Massachusetts has successfully reduced key air and water pollution problems. STEP, the Strategic Envirotechnology

figure 3-15

Pollutants Reduction in Massachusetts

Pollutant	Problems Caused	Trend Since 1990
Nitrogen Oxide (NOx)	Smog-Respiratory Problems	Down 27%
Volatile Organic Compounds (VOC's)	Smog	Down 26%
Carbon Monoxide (CO)	Affects heart, mental functions	Down 47%
Sulphur Dioxide (SO ₂)	Acid Rain- damage to forests, freshwater ecosystems, structures	Down 41%
Nitrogen Dioxide (NO ₂)	Smog, acid rain	Down 19%
Particulate Matter (PM-10)	Respiratory Problems	Down 15%
Lead (Pb)	Brain, Liver damage	Down to nearly undetectable levels

Source: DEP and EOEa

Partners, a joint program between of the EOEa and UMass, was established in 1994 to promote and stimulate private investment in environmental technology and encourage the development and deployment of innovative technologies that aid in environmental protection and resource conservation. STEP has provided assistance to more than 200 companies and technologies that have aided in the reduction of pollution in the Commonwealth.

Improvement of the infrastructure base

Massachusetts has made large investments to infrastructure improvements. Between 1991 and 1999, the Commonwealth has invested more than \$20 billion in rebuilding nearly half of the Commonwealth's aging infrastructure. During this period, the Commonwealth:

- Improved bridges. Reconstructed, renovated or repaired 1,337 municipal and state bridges managed by the Massachusetts Highway Department, or 30% of the Commonwealth's inventory.
- Increased investment in local infrastructure projects that support local business development. In 1999, the Commonwealth provided Public Works Economic Development (PWED) Grants to 73 cities and towns. PWED grant awards reached \$9.2 million during that year, significantly higher than the \$250,000 invested in 1992.
- Invested in our schools. Between 1991 and 1999, the Massachusetts Department of Education invested \$1.5 billion into 286 new construction or renovation projects.
- Enhanced our water infrastructure. The Massachusetts Water Resources Authority (MWRA) invested \$4.2 billion

in improving water and wastewater services in 60 cities and towns. Improvements have dramatically reduced pollution discharges into Boston Harbor and achieved compliance with federal regulation.

Investments have also resulted in the repair and replacement of water pipelines and the replacement of open storage reservoirs to protect treated water from contamination.⁸

Yet significant challenges remain. Massachusetts has \$4.5 billion in authorized transportation infrastructure projects, against a bond cap of \$513 million. Also, the Commonwealth has, over the next five years, an estimated \$3.9 billion in unmet needs for drinking water and wastewater infrastructure improvements. Overall, in May 2001, the Commonwealth had \$8.8 billion in authorized and unissued bonds for capital projects, against an annual bond allotment capped at \$1 billion.⁸

The New Challenge: Sprawl

The Commonwealth has made significant strides in improving its quality of life. Sprawl, or the expansion of new development, poses a new challenge. Figure 3-16 shows growth in developed land and housing units outpacing population growth. This pattern has shifted our population increasingly to areas with limited infrastructure. The resulting congestion, infrastructure overload, and environmental degradation threaten our quality of life.

In the eight years from 1991 – 1999, Massachusetts experienced an 11 percent increase in vehicle miles traveled. By comparison, our population grew only 5.5 percent between the census years, 1990-2000. This indicates greater reliance on the automobile and increased pressure to “sprawl.” One way to prevent sprawl is through the protection of open spaces. Since 1990, the state has protected 200,000 acres of open space and plans to protect another 100,000 acres by 2010.¹⁰ Brownfields projects and other redevelopment efforts will also help revitalize the Commonwealth’s urban spaces and reduce sprawl. Since 1993, initiatives to clean up brownfield sites have raised the number placed into service from about 100 per year to about 1,000 per year.¹¹

⁸ Massachusetts Executive Office of Administration and Finance, *Reconstructing Massachusetts*, January 2000.

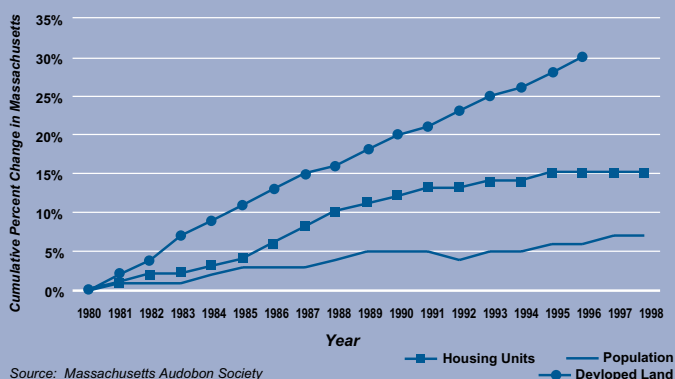
⁹ MassInsight Corporation, “The Case for Infrastructure Investment” *Competitive Issues Report*, May 2001.

¹⁰ Massachusetts Executive Office of Environmental Affairs, *The State of the Environment*, 2000 p. 134 and Massachusetts Executive Office of Administration and Finance, *Rebuilding Massachusetts*, June 2001.

¹¹ Massachusetts Executive Office of Environmental Affairs, *The State of the Environment*, 2000 p. 68

figure 3-16

Growth in Developed Land Exceeds Growth of Population and Housing



a strategic framework for economic growth: competitive imperatives for the Commonwealth



Choosing to Compete demonstrated that all of the stakeholders in economic growth - business, labor, government, academic institutions, and community groups - can collaborate to implement policies that promote economic competitiveness. In this chapter, we offer a new strategic framework for the Commonwealth. The framework consists of six “competitive imperatives,” or issues the Commonwealth must address to ensure prosperity over the long term. This framework, along with a vision for economic development, will help orient economic stakeholders to a common course of action.

The overarching objective of this strategic framework is a high quality of life for all citizens of the Commonwealth, the vision we propose in Chapter 3. This includes the traditional economic development goals of job growth and high and rising incomes. It also insists upon a shared prosperity and broad economic opportunity among diverse population groups and regions of the State and a sustainable prosperity that advances environmental and civic objectives (see sidebar, *Toward a New Prosperity: A Shared Vision for the Commonwealth*).

As described in Chapters 1 and 2, we can only realize this vision by enhancing the competitiveness of the Commonwealth and of each of our regions. Vibrant export industry clusters are today’s primary engines of economic growth. The comparative advantage of the Commonwealth lies in our rapidly growing knowledge-based export industries. Chapter 2 identified four factors that underlie the ability of these export industries to generate a continuing stream

of innovations and productivity gains:

- Knowledge workers
- Networked entrepreneurship
- Responsiveness to the opportunities created by globalization
- Attention to the importance of place

These four factors are the critical points of leverage in our strategic framework for economic development.

A Strategic Framework for Economic Growth in Massachusetts

Three principles form the foundation of our framework: First, government is most effective when it provides a healthy environment for business, not when it intervenes in the competitive process. The competitive success of the export sector is the dominant factor driving the Commonwealth’s overall economic prosperity (to learn more about the Commonwealth’s export industry clusters, see Chapter 2). But market forces are best at determining where the best opportunities lie. Thus, government should not pick winners and losers. Nor should it target specific industries or regions for the presumed common good. Government, instead, should focus on strengthening the economic foundation of all regions in the Commonwealth. In today’s economy, it should provide tools and resources to leverage the four critical success factors and support the

development of vibrant export industry clusters throughout the Commonwealth.

Second, each region and industry cluster in the Commonwealth faces its own unique set of opportunities and challenges. There is no simple “one size fits all” economic development solution. Each region and cluster must identify initiatives that best respond to its particular needs. In essence, the Commonwealth needs a flexible strategic framework – a growth agenda that is responsive to different economic conditions and local challenges.

Third, a shared leadership process is the best way forward. Business, labor, government, academic, and community groups increasingly use networks and collaborative, networked entrepreneurship to improve operations and bring innovative products to market. These networks provide access to funding, to business and employment opportunities, and to critical technical and market information. Government can make a significant contribution by establishing, nurturing, and *participating* in these networks. Government should use these networks to gather and share information, to improve access to public-sector resources and expertise, and to involve the larger community in economic development decisions.

Competitive Imperatives for the Commonwealth

The six competitive imperatives represent a set of strategic challenges the Commonwealth must confront if it is to enjoy long-term prosperity. Accordingly, the imperatives impart broad direction and urgency to the Commonwealth’s economic development efforts. The imperatives also provide a framework that links specific policy options to a shared vision for the Commonwealth.

Imperative No. 1: Improve the Business Climate to Support All Industry Clusters

Vibrant and innovative industry clusters are the primary engines of economic development. This is especially true in the Commonwealth’s networked, knowledge-based economy. Massachusetts must focus its energies on developing strong export industry clusters throughout the State. This imperative suggests two desired outcomes:

► **Desired Outcome: Strong export industry clusters throughout Massachusetts.**

Vibrant industry clusters that export goods and services beyond the region or the Commonwealth are the primary long-term drivers of economic growth (See Chapter 2). Current economic development efforts focus excessively on

Toward a New Prosperity: A shared vision for the Commonwealth

- Rising incomes
- Job growth
- Strong regional economies
- Broad economic opportunity
- Environmental sustainability
- Healthy and safe citizens
- Strong civic culture

specific industries, regions, or target areas. Some industries and locations get far more attention than others. Too few initiatives promote competitiveness more broadly across all industries and regions.

► **Desired Outcome: Firms in export industry clusters continually innovate to meet high value customer needs most effectively.**

Every firm must leverage its innovative capacity to compete in today’s increasingly fast-paced and highly competitive marketplace. Globalization only increases these pressures on Massachusetts firms. Capacity for innovation and productivity gains is not, however, equally present in all industries and regions of the Commonwealth. Much of our employment growth in the 1990s was concentrated in a limited number of knowledge-intensive clusters in or around Greater Boston. Many Massachusetts firms in these high-growth industries are less mature and are poorly linked to our institutions of higher education – the Commonwealth’s most critical competitive resource. Strengthening networks and opportunities for networked entrepreneurship will help improve the business climate, foster innovation and rising productivity, and enhance economic opportunities for all regions of the Commonwealth. To learn more about networked entrepreneurship, see Chapter 2.

Imperative No. 2: Support Entrepreneurship and Innovation

Entrepreneurship and innovation – important in any economy – are especially critical in fast-moving, networked, knowledge-based economies. We must strengthen the Commonwealth's innovation infrastructure by improving channels of communication and access to resources and by reducing regional disparities in business opportunities and access to capital. We must create a climate across the Commonwealth in which entrepreneurs can thrive. This imperative points to three desired outcomes:

► Desired Outcome: A statewide climate where entrepreneurs flourish.

Entrepreneurship and innovation, supported by our knowledge creation infrastructure, are the foundation of the Commonwealth's economy. Today, Massachusetts enjoys formidable capacity in both areas. But competition from other states and other regions, and worldwide competition, may diminish our competitive advantage in the future. We must protect and extend these advantages to all our regions of the Commonwealth if Massachusetts is to retain its leadership in technical innovation and entrepreneurship.

We can strengthen our entrepreneurial environment by enhancing links between the business community and State government, by fostering communication, by improving access to the resources available in the Commonwealth, by increasing speed and lowering the costs of transactions with government, and by enhancing opportunities for under-represented regions and populations.

► Desired Outcome: Reduced disparities in entrepreneurial opportunities.

Business opportunities and funding remain concentrated in the eastern portion of the Commonwealth. Trends in Small Business Innovation Research Grant (SBIR) awards show a similar geographic imbalance. The Greater Boston region has a particular regional specialization which provides opportunities for other regions in the State through potential inter-regional linkages. However, women and minorities may be under-represented, especially in regions beyond greater Boston. In the United States, one woman is involved in entrepreneurship for every two men. Also, women and minorities frequently lack access to networks providing financing and professional services.¹ Successfully connecting entrepreneurs throughout the Commonwealth to funders, researchers, business service providers, and other critical resources, will also enhance the capacity of our entrepreneurial networks and boost the and innovative capacity of the larger Massachusetts economy.

► Desired Outcome: A strengthened technological innovation infrastructure.

Our knowledge creation facilities and entrepreneurial networks, which convert such knowledge into practical innovations, are among the Commonwealth's most important assets. Competing states, however, are making substantial investments to create or upgrade their university research facilities. Massachusetts has traditionally relied heavily on federal R&D funding. However, the Commonwealth's relative share of these funds is declining. Between 1996 and 1998, federal R&D funding in Massachusetts grew more slowly than in competing states – and much more slowly than in states with relatively new programs.² The Commonwealth must find new resources and ways to maintain and build upon its strong infrastructure for knowledge-based innovation to enhance our long-term competitiveness.

Imperative No. 3: Prepare the Workforce of the 21st Century

The quality of our workforce will increasingly determine the extent of the Commonwealth's economic success. In a technology-based, innovation-led economy, people and the skills they possess are fundamental to the creation of economic value. Our firms must have access to the talent they need. Our workers must have skills that match the opportunities emerging in the competitive marketplace. Programs that train these workers and expand the Commonwealth's base of knowledge workers will help both firms and workers. As such, they are essential elements of efforts to promote long-term growth and competitiveness. We must view this imperative from both the employer and employee perspective, framed as two desired outcomes:

► Desired Outcome: Firms have access to the talent they need to succeed.

The Commonwealth's employers, especially in knowledge intensive industries, continually have difficulty finding and retaining workers with particular skills. In spite of the recent recession, shortages of engineers and information technology professionals remain. Currently, the education and health care sectors have tremendous difficulty locating and retaining replacements for retiring teachers and nurses. These skill shortages pose especially serious challenges to firms seeking to locate or grow in the Commonwealth. The Massachusetts Division of Employment and Training projects

that the largest number of new jobs in the Commonwealth will emerge in occupations requiring additional education, mostly at the BA/BS level, or higher.³

The Commonwealth should work to strengthen partnerships among employers, primary schools, community colleges, and universities to give workers the skills needed to function in today's economy. Enhancing access to affordable, high-quality, higher education will be essential if this challenge is to be met. Our educational institutions must provide "work ready" graduates who possess appropriate technical skills such as the ability to read, write, and compute, as well as the "soft" skills needed to function effectively in teams.

► **Desired Outcome: Worker skills match the needs of business and the competitive environment.**

Today, too many of our workers lack the educational background needed to compete in the current economy. Others have limited earning capacity because they have not been prepared to think critically, solve complex problems, communicate effectively, or use computers and other technologies.

Once on the job, unrelenting market pressures require our workers to develop new skills and adapt to a fluid labor market throughout their careers. In this dynamic market, workers change employers and even careers with increasing frequency. Thus, the Massachusetts workforce development system must effectively coordinate job-training resources. The Commonwealth's One-Stop network is intended to do that, serving as the point of contact for both employers and job seekers. But the lack of a coherent strategy, effective outreach, resources, and coordination of these services restricts access to training and employment services for both businesses and workers. These restrictions would be eased through improved system coordination and a more explicit integration of the State's workforce development and higher education systems.

Imperative No. 4: Build the Information Infrastructure of the 21st Century.

Globalization means enhanced access to opportunities and resources throughout the world. In the coming decade, the breadth and reach of the State's information infrastructure will be a critical factor determining our access to those opportunities and resources. Therefore, we must facilitate access to affordable, competitive, broadband options throughout the Commonwealth.

Universal and affordable broadband access will enhance the Commonwealth's competitiveness in various ways. It will expand the size of the State's entrepreneurial networks. This will facilitate firm formation and expansion, especially in currently unserved areas. Affordable options will also give these businesses better access to market opportunities around the world. Finally, affordable broadband will improve the quality of place for firms, knowledge workers, and the people of the Commonwealth. This imperative has one desired outcome:

► **Desired Outcome: Access to affordable, competitive broadband options throughout the Commonwealth.**

Success requires a shared vision for broadband deployment. Today, business and government lack a common idea of how to deliver affordable broadband service to all regions of the State. This vision is difficult to develop as market, regulatory, and technology factors all shape the status of broadband deployment in the Commonwealth. Conflicts between immediate and longer-term needs further complicate efforts to define a common approach to broadband deployment.

Massachusetts' deregulated telecommunications industry relies on private, market-driven investment to "build out" its telecommunications infrastructure. To date, this approach has yet to deliver affordable broadband options to less densely populated and less affluent communities. The recent retrenchment in the telecommunications industry complicates matters, as it limits the capital available for necessary infrastructure investment.

Imperative No. 5: Ensure that Economic Growth is Compatible with Community and Environment

Massachusetts must develop sufficient housing and commercial/industrial space to accommodate a growing economy. At the same time, we must implement sustainable growth strategies that protect our environment and ensure a high quality of life in our cities and towns.

¹ William Bygrave, Dean Shepherd, and Andrew Zacharias, *Global Entrepreneurship Monitor: National Assessment, the United States of America – 2000 Executive Report*. Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation, 2000. Pgs. 9 and 15.

² Massachusetts Technology Collaborative, *Maintaining the Innovation Advantage: The Case for Creating a Massachusetts Science & Technology Policy*, August 2001, pp. 10-11.

³ Massachusetts Division of Employment and Training, Economic Analysis Department, *Massachusetts Employment Projections through 2008: A Focus on the Jobs, the Industries, and the Workforce*, 2000, p. 8.

Rapidly rising costs for housing and other forms of real estate have hampered the Commonwealth's growth. Recently, the jump in home prices in many parts of Massachusetts has been a serious hardship for workers wanting to move into the Commonwealth, and for many Massachusetts families wishing to purchase their first home.

Successfully addressing these issues will not only improve our quality of life, but will also enhance the State's economic competitiveness. Attending to both economic development and the quality of place will increase the Commonwealth's attractiveness to businesses and knowledge workers who demand a high quality of life in the places they choose to locate. This imperative requires attention to two desired outcomes:

Desired Outcome: Massachusetts is a leader in implementing development strategies that preserve a high quality of life.

Current development planning suffers from a lack of coordination among impacted parties. At the State level, critical transportation infrastructure investments are largely made independent of broader economic development and growth planning considerations. The Commonwealth also has a long-standing tradition of local control that gives our cities and towns significant authority over many matters related to growth. Our communities, however, often lack sufficient trained staff to keep pace with evolving federal and State regulations governing growth and infrastructure decisions. They also lack the resources necessary to support their planning and/or zoning boards, resulting in substantial delays in evaluating proposed developments.

Improved coordination of State and local planning bodies will add coherence to development practices and focus incentive systems to reverse the trend toward costly, low-density development. This will improve the sustainability of growth and the quality of life throughout the Commonwealth.

Desired Outcome: Massachusetts implements housing affordability solutions to support growing businesses and their employees.

Rising home values are boosting homeowner wealth. However, young, low-income, and middle-income workers find it increasingly challenging to find an affordable home within a reasonable commuting distance from work. As a result, employers frequently find it hard to attract the workers they need. An ample housing stock should help moderate price increases and make the State more attractive to such workers and their employers.

Imperative No. 6: Improve the Outcomes of Government Action.

We must continue to seek wise regulation and better coordinated and more effective services and business assistance. Wise regulation is the product of business and government seeking improved mutual outcomes from regulation. The needs of small businesses are especially acute. The Commonwealth must also swiftly and effectively respond to emerging terrorism threats and maintain confidence in the basic infrastructure linking global production, communication, and transportation networks.

Desired Outcome: State government provides more effective and better-coordinated services and resources to businesses, particularly small businesses.

The Commonwealth is active in many policy areas that shape the lives of its citizens and businesses. One unanticipated consequence has been the proliferation of agencies and quasi-public organizations with closely related and often overlapping missions. This approach has benefits, including specialized expertise and flexibility. Unfortunately, these benefits are too frequently accompanied by a lack of accountability and effectiveness. Too many agencies issue regulations and provide outreach and technical support. This fragmentation makes it hard for business, especially small business, to understand government programs and access its services and resources. Thus, government should fashion, deploy, and market comprehensive responses specifically designed for our economic development needs.

Desired Outcome: Business and government develop "wise" regulations.

The shift toward a more collaborative regulatory model improved the quality of government action and compliance on the part of business. Nevertheless, we must do more. Improved coordination and a periodic review of all regulations can update, simplify, or eliminate many redundancies and contradictory requirements. Regulations should also be sensitive to the size of the business expected to comply. Small businesses lack the resources needed to keep pace with regulations and their changes – especially regulations that are difficult to find and interpret.

A comprehensive assessment of the Commonwealth's regulatory climate is needed and mechanisms to help our regulatory agencies improve their effectiveness must be developed. While collaborative approaches improve regulation and the regulatory climate, they tend to focus the attention of both

business and government on compliance issues. It is important to remain focused on the problems that led to regulation in the first place. The Commonwealth needs more efficient regulatory mechanisms and better ways to expand regulatory flexibility.⁴

Desired Outcome: Massachusetts is widely recognized as a leader among states in developing innovations in government.

Leadership in regulatory matters will create significant value for our citizens and businesses and free up private sector resources formerly devoted to compliance. Leadership in program design and service delivery will support business more effectively, providing more information, services, and resources while lowering transaction costs. A productive and efficient government – with a focus on economic development – is a significant competitive advantage. The fundamental purpose of this report is to move the Commonwealth in this direction.

Desired Outcome: Massachusetts enhances the competitiveness of its regions by reducing costs affecting all businesses.

Governments help shape a region's competitiveness through the provision of services, regulations, and incentives – all of which influence costs borne by business. Governments can contribute to these costs directly, through decisions relating to taxes and fees, as well as indirectly, through budget or staffing decisions that can reduce or enhance business efficiency or raise or lower transaction costs. Efficient service delivery can lower transaction costs and improve predictability and help all businesses focus their resources on competition and growth.

Desired Outcome: Massachusetts has a well-coordinated and effective response to terrorist attacks.

The September 11 attacks generated a great deal of anxiety about the Commonwealth's readiness to effectively respond to a terrorist attack. An attack could imperil the lives of citizens and substantially damage the State's economy. Government must anticipate and plan for such attacks and prevent them where possible. Should an attack occur, government must respond quickly and effectively mitigate any adverse impacts. More broadly, government must restore confidence in the safety and security of our infrastructure networks and the continuing vitality of our economy. Our knowledge-based export

clusters and travel and tourism industries, in particular, depend on a safe and secure infrastructure – and on the perception of safety and security. The larger economic and entrepreneurial sector also needs to understand the fiscal implications of State government's new security obligations.

A Framework for Action

Part III of this report is designed to provide all stakeholders – business, labor, government, academic institutions, and community groups – with a set of policy options to help advance this strategic framework. Part III further organizes these *desired outcomes* into more targeted *policy options* and *success measures* that could help advance a shared vision for the Commonwealth's economic future. Part III is designed as a resource for those in the public, private, and non-profit sectors who are actively advancing economic development initiatives for the Commonwealth and/or its seven constituent regions.

The strategic framework presented in this document is meant to serve as a springboard for future leadership. We hope that the framework presented here helps structure a debate that is constructive and moves the Commonwealth *Toward a New Prosperity*.

⁴ Andrew Hoffman, Hanna Riley, John G. Troast, Jr. and Max Bazerman (2000) "Cognitive and Institutional Barriers to New Forms of Cooperation on the Environment: Insights from Project XL and Habitat Conservation Plans."

toward a new prosperity:

profiles of our economic region



Part I of this Report presents a perspective on the Commonwealth's economic development during the 1990s. It describes the nature of economic change in Massachusetts and identifies factors now driving our economic success. Part I also lays out a strategic direction for future economic growth. Taken as a whole, it proposes a framework for understanding the Massachusetts economy and for promoting its competitive success.

Part II profiles the seven regional economies in the Commonwealth. These profiles identify each region's economic strengths, challenges, and priorities for economic development. They are the products of economic research and regional outreach meetings. Part II highlights the economic diversity of the Commonwealth. Our regional economies are often quite distinct and have varied priorities. Input from across the Commonwealth helped shape the strategic framework for economic development presented in Part I. The profiles in Part II demonstrate that economic development initiatives must remain sensitive to the differing needs of the regions.

Each profile describes the region's economic performance during the 1990s, with emphasis on the period of statewide economic expansion that occurred between 1993 and 2000. The profiles pay particular attention to the strength of each region's export industries. As discussed in Chapter 2, the competitiveness of a region's export sector is critical to its overall economic performance. The Commonwealth has expanded on the framework developed in the last strategic planning document, *Choosing to Compete*, to include six broadly defined industry

clusters for analyzing the Massachusetts export sector. As indicated in Chapter 2, in The Massachusetts Export Sector¹ sidebar, four of these clusters have emerged in recent years and are grounded in the delivery of knowledge-intensive goods and services – Information Technology, Health Care, Financial Services, and Knowledge Creation. “Traditional Manufacturing” is the group of manufacturing industries that are not part of the Information Technology or Health Care clusters. The Commonwealth's final export cluster is Travel and Tourism. Our hotels, transportation providers, automotive rental firms, restaurants, and retailers provide out-of-state travelers and tourists valuable personal experiences and opportunities to conduct business. These industries depend on travel and tourism for a substantial share of their total sales.² As discussed in Chapter 2, the Travel and Tourism cluster also provides support services that are attractive to knowledge-based firms, especially in urban areas. As such, travel and tourism generates income for the State and its regions as well as providing support to the knowledge economy.

The Massachusetts Export Sector:

- Information Technology
- Financial Services
- Knowledge Creation
- Health Care
- Traditional Manufacturing
- Travel and Tourism

Our analysis of these export clusters has an important limitation. It relies on data collected by the Massachusetts Division of Employment and Training for the U.S. Department of Labor from all employers in the Commonwealth. Federal rules prohibit the publication of data that clearly reveal information about individual firms. As a result, data on some industries in some regions are not available. The absence of data in our cluster analyses thus does not necessarily mean that the industry is absent in a region, but could indicate a limited number of firms.

The profiles also summarize the demographic changes that took place in each region during the 1990s. Like the rest of the nation, the Commonwealth's population is aging and becoming more diverse. Unlike much of the rest of the nation, however, it is growing slowly. The profiles show that the regions vary in their pace of change. These demographic shifts have profound implications for the development prospects of every region of the Commonwealth.

The profiles also present information on the changing racial composition of each region. This analysis relies on data from the 1990 and 2000 U.S. Censuses, and should be interpreted with care. Reporting membership in a racial group is optional and self-reported. Apparent changes in racial composition might reflect changes in the way respondents identify themselves. In addition, the number of racial categories offered to respondents increased between 1990 and 2000. While these categories have been summarized for this report, choices made in answering the Census may lead to some bias in the data reported here.

The creation of the new category "two or more races" poses a special challenge. It reflects a change in the racial realities of the nation – the presence of racial classification in 2000 that was not fully recognized ten years earlier. The numbers presented in the figure thus reflect racial self-identification according to the categories identified at the time by U.S. Census. Comparisons of figures and changes between 1990 and 2000 must take this into account.

The profiles highlight the economic development priorities of each region. The economic research and regional meetings identified policy priorities that informed the development of six competitive imperatives articulated in Chapter 4.

Competitive Imperatives for the Commonwealth

- Improve the Business Climate to Support All Industry Clusters
- Support Entrepreneurship and Innovation
- Prepare the Workforce of the 21st Century
- Build the Information Infrastructure of the 21st Century
- Ensure that Economic Growth Is Compatible With Community and Environment
- Improve the Outcomes of Government Action

While the regions have many similar needs and challenges, their needs and challenges also vary in important ways. Accordingly, a top priority for Greater Boston may not be critical to the Pioneer Valley. Each profile contains a list of regional policy priorities developed with the input of local stakeholders and informed by in-depth regional economic research.

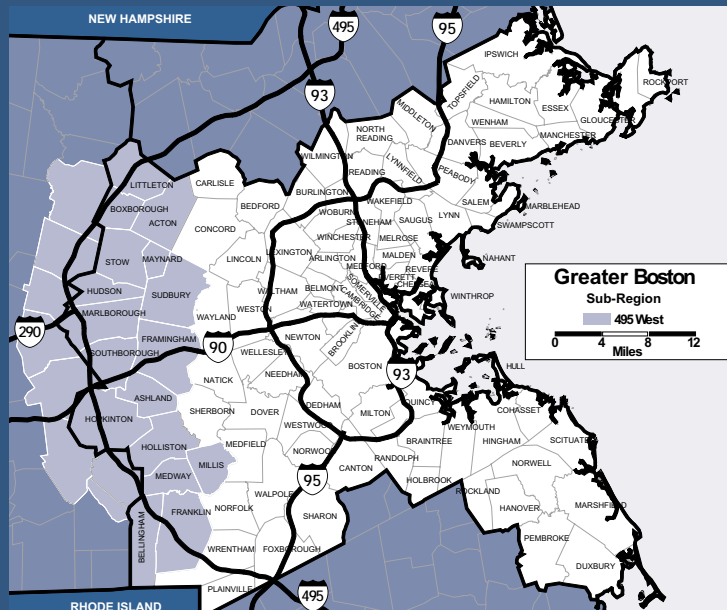
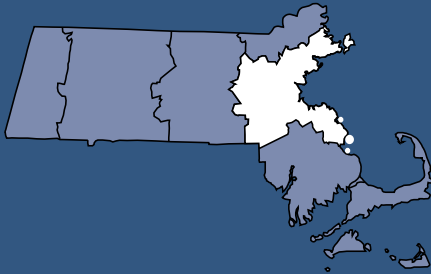
The profiles highlight the importance of sub-regions. The regional boundaries used in this section conform to those established in *Choosing to Compete*. Preserving these borders allows the reader to compare the current state of a regional economy to its position in the early 1990s. However, various sub-regions in the Commonwealth have emerged in the years since *Choosing to Compete* was released. Where adequate data are available, the profiles present sub-regional analyses in an effort to recognize and highlight these developments.

The profiles provide connections to our strategic framework and policy options. The regional policy priorities defined in the profiles require a response from business leaders, citizens, and policy makers. The conclusion of each profile identifies links to a range of policy options in Part III. Those options are designed to provide policy makers at the regional and statewide levels with alternatives to consider as they address these priorities. These options are intended to promote a healthy conversation that can inform policies that support the long-term competitiveness of the Commonwealth and its regions.

¹ See the sidebar, "The Massachusetts Export Sector" in Chapter 2. This framework appeared in Massachusetts Executive Office of Economic Affairs and The University of Massachusetts, *Choosing to Compete* (Boston: Massachusetts Executive Office of Economic Affairs, 1993) and was expanded upon in the more recent Robert Forrant, Philip Moss, and Chris Tilly, *Knowledge Sector Powerhouse*, (Boston: UMass Donahue Institute, 2001).

² David Kass and Sumiye Okubo, "U.S. Travel and Tourism Satellite Accounts for 1996 and 1997" Survey of Current Business, July 2000.

greater boston region



Today, Greater Boston is widely recognized as one of the most innovative economic regions in the world. It is home to some of the world's finest institutions of higher education, which has generated a tremendous concentration of science and technology related research and development. These intellectual resources, combined with its rich historical heritage and extensive cultural resources, make Greater Boston the center of much of the economic activity in the Commonwealth. For the purposes of this analysis, we define Greater Boston as the communities indicated in the map (see above). The Region includes all of Suffolk County, a large share of Middlesex and Norfolk counties, and portions of Plymouth and Essex Counties.

By size alone, the Greater Boston Region is the critical economic engine of Massachusetts. It is home to half the State's workforce and jobs. According to the Bureau of Economic Analysis, the personal income generated by the residents of Suffolk, Norfolk and Middlesex Counties alone accounts for more than 50 percent of the State total.

The knowledge-intensive export clusters that drive the larger economy of the State are concentrated in Greater Boston. These export clusters, as presented in Chapter 2, are:

- **Knowledge Creation.** This industry cluster is fueled by world-class institutions of higher education that bring income into the Region in the form of payments for tuition, room, board,

and ancillary items for out-of-state students; and by a diverse array of legal, scientific, engineering, and management service industries that generate substantial fees from out-of-state clients.

- **Information Technology.** The Region is widely recognized as a global leader in the broad computer and communications technology cluster, which includes many of the world's largest, most dynamic knowledge-based industries.

- **Financial Services.** Greater Boston is home to some of the largest and most influential financial firms in the world, especially in the rapidly expanding mutual fund and money management industries.

- **Health Care.** The presence of numerous world-class teaching hospitals and academic research centers not only attracts out-of-state patients and research funds, but has sparked the rapid development of the related medical device and biotechnology sectors.

While the Greater Boston economy is large, diverse, and clearly successful, significant challenges remain. Much of the Region's economic growth during the 1990s benefited high-wage, educated workers and was concentrated in its outer ring, between Routes 128 and 495. Many workers without a college education did not share in this prosperity. Nor did its older industrial cities within Route 128, such as Chelsea, Everett, Lynn, Revere, and Saugus. Overcoming

these educational and spatial barriers will be critical if the benefits of economic growth are to be distributed more broadly in the future.

The locus of economic development has moved to less densely-populated parts of the Region Commonwealth. Concurrently the price of housing has risen even faster than incomes. As a result, a housing “affordability gap” has widened throughout the decade, impeding the Region’s ability to grow. The workforce increased by a modest 3.6 percent over 1990–2001, much slower than the Region’s 12.2 percent rate of job growth, and almost all workforce gains came in 2001. While payroll employment and the workforce grew faster in Greater Boston than in the Commonwealth, population growth actually lagged, rising 4.9 versus 5.5 percent for the rest of the State. While the region supplies half of the jobs in the Commonwealth, it has less than half the population. Due to its uneven pattern of economic development, this population has also grown unevenly, with the population of some cities and towns flat or declining, while others have seen tremendous growth.

Sub-Regional Analysis

The I-495 West sub-region has emerged as an important location for the new knowledge-based clusters. For this reason, the following analysis highlights the I-495 West sub-region. As shown on the map, the sub-region follows I-495, from Littleton in the north to Franklin in the south. Note that several of the communities in the I-495 West sub-region lie outside the Greater Boston Region.

Economic Overview

Employment¹

The Greater Boston Region accounts for more than half of the jobs in the Commonwealth. Over the 1990–2001 period, the workforce increased by a modest 3.6 percent. Almost all of this growth came in 2001, as the Region needed much of the decade to recover job losses incurred during the early 1990s recession. This is the same rate of growth as the statewide workforce.

Over the past decade, the Greater Boston unemployment rate has always been below that of the State, reaching a low of 2.2 percent in 2000 before rising to 2.85 percent in 2001(see figure 5-2). This low level of joblessness has not been uniform across the Region. The I-495 West sub-region has had an unemployment rate around 0.2 percentage points below the Region as a whole. Several communities continue to experience higher unemployment rates, such as Chelsea (3.9 percent), Hull (3.4 percent), Revere (3.4 percent), and Everett (3.0 percent).²

¹ The data in this section on the number of people employed, in the labor force, and unemployed are taken from the household survey. They therefore will not match the employer-based data used in other sections that report the number of payroll jobs.

² Steven Winter. *MAPC Comprehensive Economic Development Strategy 2002*, December 2001.

figure 5-1

Labor Force and Employment: Greater Boston Region

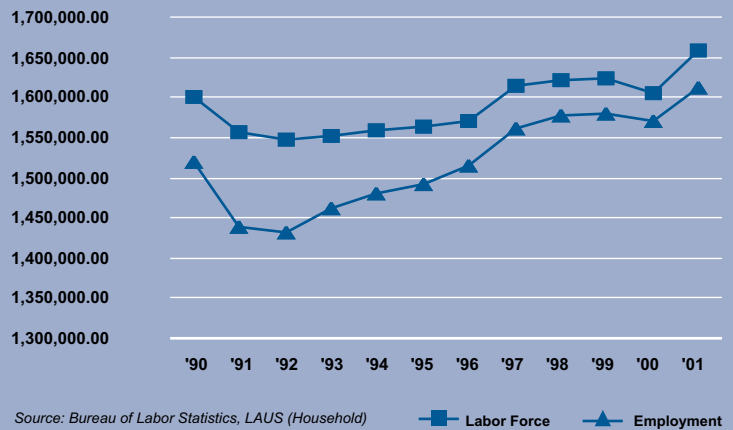


figure 5-2

Unemployment Rate: Greater Boston Region

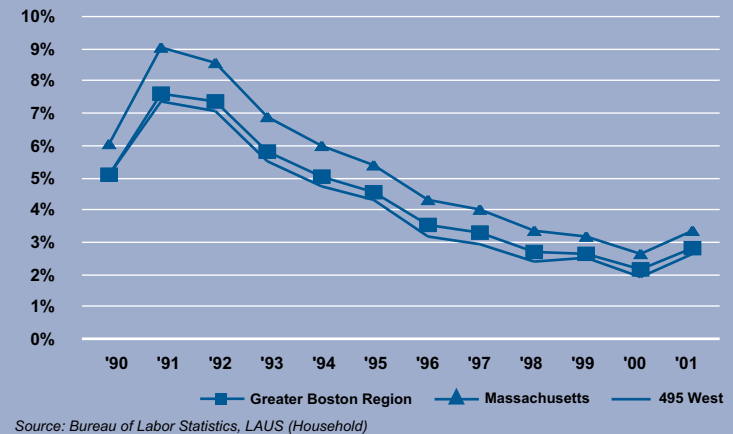


figure 5-3

Average Real Wages: Greater Boston Region

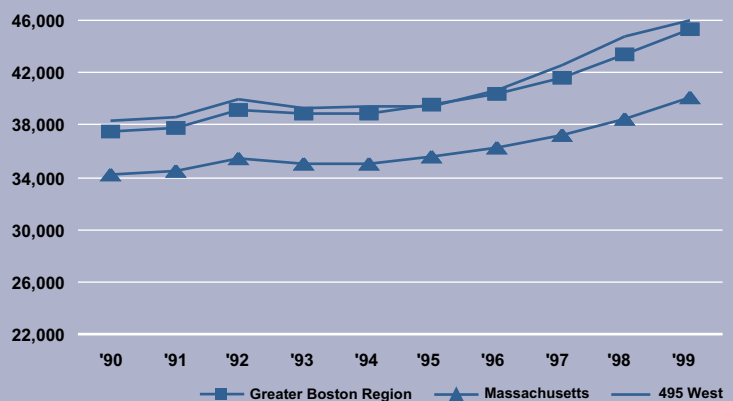


figure 5-4

Employment by Major Industry: Greater Boston Region

	1993	2000	Percent of 2000 Total
Agriculture, Forestry, Fishing, and Mining	5,782	8,995	0.5
Construction	43,477	72,842	4.2
Manufacturing	171,819	162,428	9.4
Transportation and Public Utilities	88,602	98,791	5.7
Wholesale Trade	79,893	91,036	5.3
Retail Trade	222,583	258,062	15.0
Finance, Insurance, and Real Estate	133,332	160,775	9.3
Services	606,171	792,516	46.0
Government	74,633	75,563	4.4
Total	1,426,292	1,721,008	100.0

Source: Division of Employment and Training, ES-202

Income

Income growth in the Region has not kept pace with the surge in housing prices, creating an estimated “affordability gap” of \$31,460 in 1999 (see figure 3-3). This gap has steadily widened. Jobs in the Greater Boston Region generally pay much better than jobs in the rest of the State (see figure 5-3). Average wages in Greater Boston were 9.5 percent higher than those in the State in 1990, and this gap had increased to 13 percent by 2001.³ In the I-495 West sub-region, wages were even higher, though the size of this gap with the Greater Boston Region declined during the past decade.

Employment by Major Industry Sector

In 2000, the largest industry sector in terms of employment⁴ in the Region was services, followed by wholesale and retail trade, manufacturing, and Finance, Insurance, and Real Estate (FIRE). The industry mix changed during the economic expansion between 1993 and 2000. Notable are the increases in services and FIRE, at the expense of manufacturing and some government employment. Overall, employment grew 20.7 percent during this period, with services growing 30.7 percent, trade (wholesale and retail) 15.4 percent, and construction 67.5 percent (see figures 5-4 and 5-5). In the I-495 West Region, services employment dominated growth, rising by over 30,000 jobs, or 62 percent.

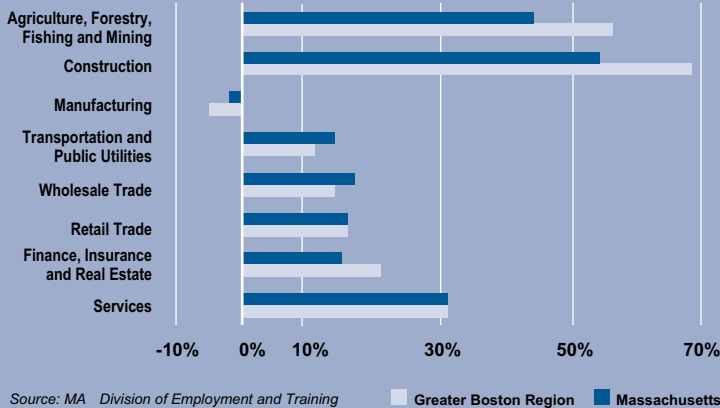
Comparisons with the State over the period 1993-2000 show the growth of employment in construction and agriculture far exceeding their statewide averages. Most of the large increase in construction can be attributed to the Central Artery Project, increasing demand for home building services and commercial space. The expansion of home yard service companies also boosted growth in the agricultural sector. The more rapid expansion of the FIRE sector is almost all due to growth in the mutual fund and brokerage industries. It is also worth noting the steeper decline in manufacturing employment in the Region as compared to the State and the much slower increase in government employment (see figure 5-5).

With the exception of the transportation and government sectors, real average pay growth matched or exceeded statewide growth in each of the Region’s industry sectors.

The downsizing of regional manufacturing also shows up in the layoff data. Between 1993 and 1998, 50 percent of jobs lost to plant closing or permanent layoffs in the Metropolitan Area Planning Commission Region (which is slightly larger than the Greater Boston Region) were from the manufacturing sector. In Greater Boston in 2001, 35.5 percent of layoffs were in manufacturing, over three times its share of total employment. This is in contrast to services (35 percent), where layoffs more closely approximated their relative proportion of employment in the Region (see figures 5-4 and 5-7).

figure 5-5

Change in Employment, by Major Industry, Greater Boston Region: 1993 to 2000

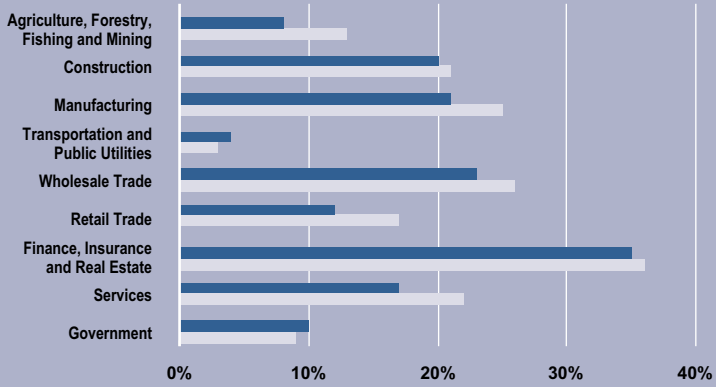


Source: MA Division of Employment and Training

Greater Boston Region Massachusetts

figure 5-6

Change in Real Average Pay, by Major Industry, Greater Boston Region: 1993 to 2000



Source: MA Division of Employment and Training

Greater Boston Region Massachusetts

The Greater Boston Region Export Sector

As explained in Chapter 2, a healthy export sector is critical to a Region's economic success. The sidebar in that Chapter on "The Massachusetts Export Sector" presented six large industry clusters as the key components of the Commonwealth's export sector. These clusters were identified in earlier State policy documents and studies, specifically *Choosing to Compete*⁵ and the more recent *Knowledge Sector Powerhouse*.⁶ They include four knowledge-based clusters – Information Technology, Health Care, Financial Services, and Knowledge Creation. They also include two clusters that are less knowledge intensive: Travel and Tourism and "Traditional Manufacturing" (manufacturing industries, such as paper, plastics and rubber, metalworking, and machinery that are not part of the Information Technology or Health Care clusters). The discussion below uses this framework to explore the Region's export sector (see figure 5-8).

Figures 5-8 and 5-9 show export cluster growth in the Region and sub-region, as compared to Massachusetts. When interpreting the results of our analysis, please note that the employment figures reported for these large industry clusters are not meant to represent export sector jobs. The Health Care cluster, for example, includes physicians serving the local population. A finer picture of the composition of the Region's export sector, and the extent to which the Region has become part of the wider knowledge-based economy, is developed in the discussions that follow. Also, note that some of the following charts show no data for some industries in the export clusters. This does not necessarily mean that the industry is absent. Federal rules prohibit access to data that could provide information about individual firms. The lack of industry data could be due to this limitation.

figure 5-7

Layoffs, by Industry: July 2000 to June 2001 Greater Boston Region

Sector	Persons Laid Off	Percent of Total
Army	150	1.2%
Construction	6	0.0%
Education	50	0.4%
Government	124	1.0%
Health	346	2.7%
Manufacturing	4,594	35.5%
Retail	3,083	23.8%
Services	4,524	34.9%
Transportation	70	0.5%
Total	12,947	100.0%

Source: The Commonwealth Corporation Rapid Response Unit

figure 5-8

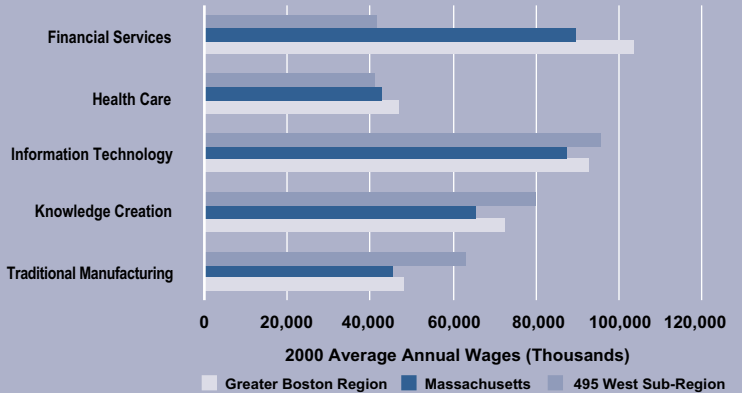
Employment Change in the Commonwealth's Export Clusters: Greater Boston Region, 1993 to 2000



Source: Forrant et al., "Knowledge Sector Powerhouse." University of Massachusetts Donahue Institute. 2001

figure 5-9

Change in Average Pay in the Commonwealth's Export Clusters: Greater Boston Region, 2000



Source: Forrant et al., "Knowledge Sector Powerhouse." University of Massachusetts Donahue Institute. 2001

³ The U.S. consumer price index (CPI) was used to adjust nominal wages for the effects of inflation.

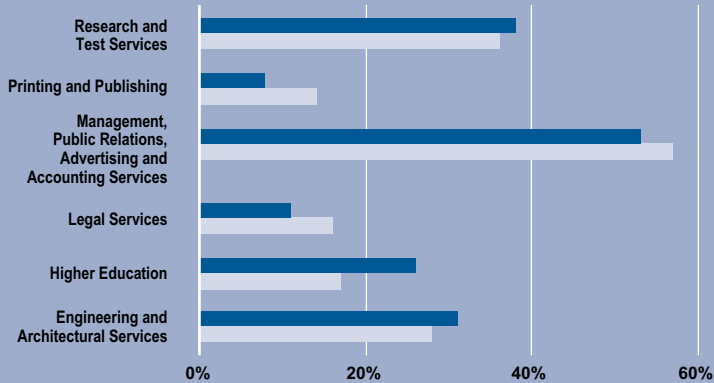
⁴ Employment is measured here using the Bureau of Labor Statistics, ES-202 series, which are employer reports of payroll jobs rather than household-based measures of employed or unemployed people. As a result, the numbers will differ from employment figures based on the household survey presented in other sections of the document.

⁵ Massachusetts Executive Office of Economic Affairs and the University of Massachusetts, (Boston:, 1993).

⁶ Robert Forrant, Philip Moss, and Chris Tilly. (Boston: UMass Donahue Institute, 2001).

figure 5-10

Knowledge Creation: Change in Employment, Greater Boston Region: 1993 to 2000



Source: MA Division of Employment and Training

Greater Boston Region Massachusetts

Knowledge Creation

Knowledge Creation experienced the most balanced growth of any of the export industry clusters. Research and testing, engineering and architectural services, and the management, public relations, advertising, and accounting industries all registered substantial employment gains. In Greater Boston, most of the Knowledge Creation clusters grew at close to their statewide averages and outpaced employment growth as a whole (a 28 percent gain as compared to 21 percent). The gains were led by the management, public relations, advertising and accounting services sector (see figure 5-10). The rapid increase in demand for these professional business services was likely driven by other rapidly growing export industries, which were fueled by record venture capital investments. Graduates of Greater Boston's many quality institutions of higher education helped these firms sustain this level of rapid employment growth.

Information Technology

Regional employment in the Information Technology export cluster grew far faster than overall employment in Greater Boston (60 percent versus 21 percent). The gains were greatest in computer software development and "other computer services," which grew 129 and 199 percent respectively. These two sectors created over 50,000 jobs between 1993 and 2000 jobs that paid an average of \$100,750 in 2000. This was more than twice the regional and State average wage (see figure 5-11).

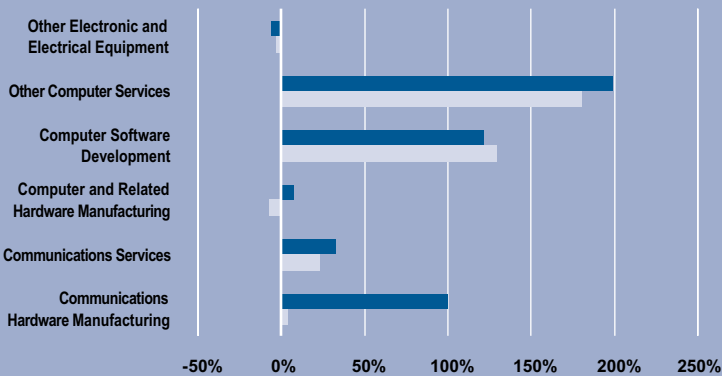
The Knowledge Creation and Information Technology export clusters account for nearly one quarter of the jobs in the Region, with almost 14 percent in Knowledge Creation and 9 percent in Information Technology. Even with these employment gains, growth in statewide employment was *at least* as high or higher. Employment growth in both groups, particularly Information Technology, was also very strong in the I-495 West sub-region. Knowledge Creation (7.9 percent of I-495 West employment in 2000) grew much faster than its State or regional counterparts, with employment rising over 75 percent, and the number of jobs in Information Technology (18.4 percent of I-495 West employment in 2000) rose almost 40 percent (see figure 5-8, on previous page). The growth of these clusters in the I-495 West sub-region was supported by the availability of land for development, immediate access to major roads, ready access to professional services firms, and to the cultural amenities their employees desired. By the end of the decade, however, a good deal of the land available for development had already been put to use.

Financial Services

Employment in the Financial Services export cluster (7.2 percent of Greater Boston's employment) grew 25 percent between 1993 and 2000, exceeding the statewide average for this cluster and slightly

figure 5-11

Information Technology: Change in Employment, Greater Boston Region: 1993 to 2000

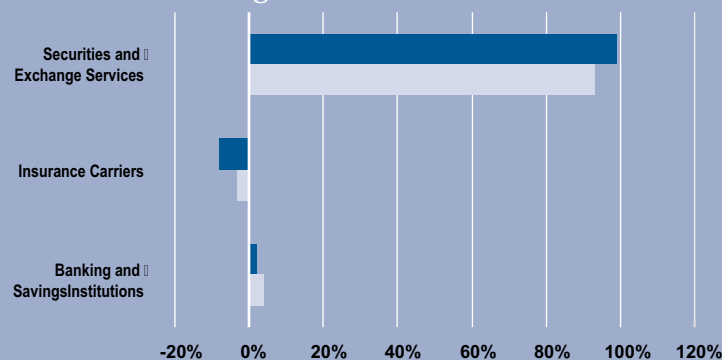


Source: MA Division of Employment and Training

Greater Boston Massachusetts

figure 5-12

Financial Services: Change in Employment, Greater Boston Region: 1993 to 2000



Source: MA Division of Employment and Training

Greater Boston Region Massachusetts

exceeding overall regional employment growth. The securities and exchange services sector grew dramatically, rising over 90 percent and creating nearly 25,000 new jobs (see figure 5-12). In 2000, the average wage in the industry exceeded \$160,000. This extraordinary growth was fueled by the rapid rise of the stock market during the 1990s.

Financial services employment in the I-495 West sub-region declined slightly overall, in sharp contrast to the Region and State (see figure 5-8, on page 56). While jobs in the regionally lucrative securities and exchange services sector increased dramatically, wages paid in the sub-region declined substantially between 1993 and 2000 – from \$62,376 to \$35,924. The most highly compensated jobs in this industry are concentrated in the City of Boston and its immediate suburbs. Relatively lower paying “back-office” jobs are located in the outer suburbs.

Health Care

Employment in the Health Care export cluster (10.6 percent of Greater Boston’s total employment) grew 7.0 percent during the expansion between 1993 and 2000, lagging the statewide average for the cluster and overall employment growth in the Region. While the drugs and pharmaceuticals sector grew 173 percent, it still represents less than 3 percent of total cluster employment in 2000. Employment in health services accounts for the lion’s share of employment – nearly 170,000 jobs – and this industry grew modestly, rising 5 percent (see figure 5-13). Not surprisingly, jobs in the drugs and pharmaceuticals sector pay handsomely, averaging over \$127,000 in 2000, while health services jobs, largely held by employees of hospitals, nursing homes, and other medical facilities, pay much lower wages, averaging only \$44,020 in 2000.

Traditional Manufacturing

Employment in the Traditional Manufacturing export cluster, now 3 percent of Greater Boston’s employment, declined 9 percent between 1993 and 2000. This job loss occurred as this cluster grew 1 percent statewide and stands in stark contrast to the 21 percent overall employment growth in the Greater Boston Region.

In percentage terms, employment growth in the plastics and rubber manufacturing industry far exceeded the statewide gains (34 percent compared to the 5 percent growth statewide). In absolute terms, employment growth was far more modest as the industry added less than 800 jobs between 1993 and 2000 (see figure 5-14). These gains were more than offset by employment declines in metalworking, paper, non-electric machinery, instruments, and apparel and textiles. This same pattern was also in evidence in the I-495 sub-region.

figure 5-13

Healthcare, Change in Employment, Greater Boston Region: 1993 to 2000

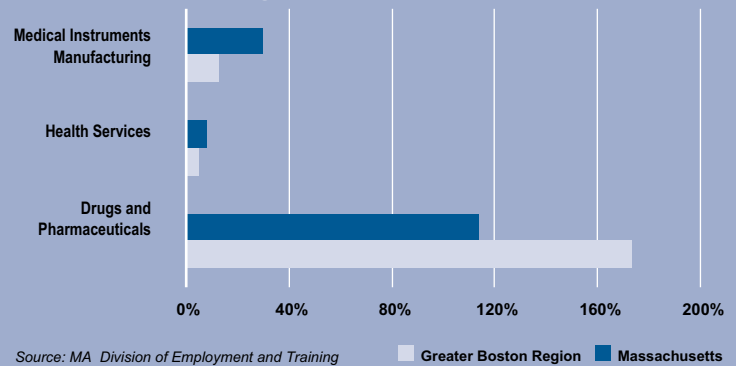
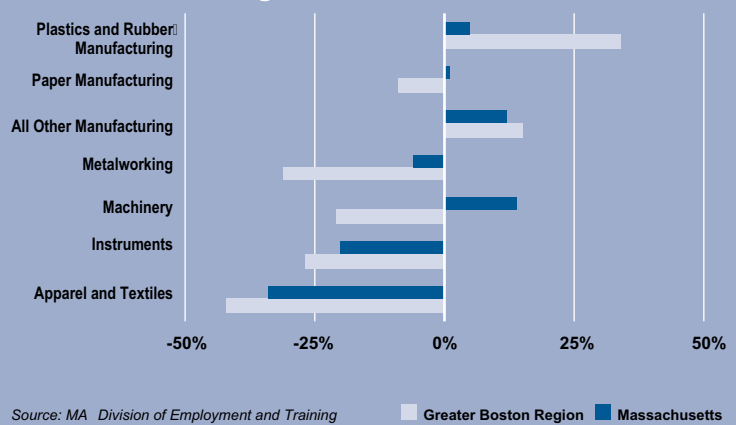


figure 5-14

Traditional Manufacturing: Change in Employment, Greater Boston Region: 1993 to 2000



Travel & Tourism

The growing impact of the Travel and Tourism cluster in Greater Boston can be seen in the experience of its hotel industry. In the year ending June 2000, hotels and motels in Suffolk, Middlesex, and Norfolk Counties grossed an estimated \$1.3 billion in room sales, up 42 percent over the year ending June 1997.⁷ These expenditures define a conservative estimate of traveler spending. This is because total spending typically includes meals, retail purchases, and attractions, in addition to spending on accommodations.

Room sales in Greater Boston exceeded the statewide gains of 37 percent, and propelled an expansion of the industry. Between 1997 and 2000, the number of hotels in Suffolk, Middlesex, and Norfolk counties increased 15 percent, to 221, and employment grew 11 percent, to 19,617 workers. The industry pays low wages and has a large number of part-time jobs, yet average real wages increased 6 percent in this period, to \$27,962.

⁷ Estimate based on FY 2000 State room occupancy tax collections, which are levied at 5.7% of the room rate.

figure 5-15

Demographic Summary Greater Boston Region

	Greater Boston Region			MA		
	1990	2000	Change	1990	2000	Change
Total Population	2,874,539	3,015,981	4.9%	6,016,425	6,349,097	5.5%
Age (share of total)						
Under 18	20.3%	22.1%	1.8%	22.5%	23.6%	1.1%
19-24	12.4%	9.7%	-2.8%	11.8%	9.1%	-2.7%
25 to 44	34.9%	32.9%	-2.0%	33.6%	31.3%	-2.2%
45 to 64	19.1%	22.1%	3.1%	18.5%	22.4%	3.8%
65 and over	13.3%	13.3%	0.0%	13.6%	13.5%	-0.1%
Race/Ethnicity (share of total)						
White	87.3%	81.1%	-6.2%	89.8%	84.5%	-5.3%
Black	7.2%	7.6%	0.4%	5.0%	5.4%	0.4%
Asian	3.3%	5.4%	2.1%	2.4%	3.8%	1.4%
Other race	2.3%	3.5%	1.2%	2.8%	4.0%	1.2%
Two or more races*	na	2.5%	na	na	2.3%	na
Hispanic (of any race)	4.5%	6.4%	1.9%	4.8%	6.8%	2.0%

* the category of persons with two or more races did not exist in the 1990 Census

Source: U.S. Bureau of the Census, Decennial Population Census

Demographics

Population

Greater Boston is by far the most populous of the State's regions, and its 3,015,981 residents account for almost half of the Commonwealth's population. It lagged the State in population growth over the past decade, rising 4.9 percent vs. 5.5 percent for the Commonwealth (see figure 5-15). Changes have also been quite uneven across the Region, with the population of some cities and towns remaining stagnant or declining, while others have seen tremendous growth.

Most areas close to Boston have experienced very little population change. One exception was Chelsea, which increased by 22 percent. Otherwise, the highest growth in the Region has been along the I-495 corridor, particularly in the north (Wilmington, 21 percent), the west (Borborough, 45 percent), and the southwest (Hopkinton, 45 percent; Southborough, 33 percent; and Franklin, 34 percent). Overall, the I-495 West sub-region experienced an 11.3 percent increase in population, growing at over twice the rate of Greater Boston.

Resident Age Distribution

Over the past decade, the median age in Greater Boston rose from 34 to 36.3, slightly below the State median of 36.6. This small increase masks a significant shift in the Region's age profile. The population of those aged 45 to 64 increased almost 22 percent to 666,805, while the 19 to 24 year-old age group fell by almost 19 percent, to 291,454 (see figure 5-15).

While both the State and Region experienced a mini "baby boom," this has not been enough to counter the aging of the population, which is likely to have significant effects on the economy.⁸ An aging population means an aging workforce. Employers will find that the drop in the number of young workers entering the workforce will require them to adjust their hiring practices to fit an older, more experienced, entry-level worker. Displaced workers (which have increased substantially with the current recession) are going to be older, and many will be crossing industry sectors, thus requiring considerable retraining.

Two cities in Greater Boston – Boston and Chelsea – have become "minority majority" communities, as non-Hispanic Whites account for less than 50 percent of their populations.⁹ In twelve towns close to Boston, over 20 percent of the population is classified as "minority."¹⁰ The Region is home to 194,051 Hispanic residents -- almost half the State's Latino community.

Housing

Greater Boston's housing stock reflects its largely urban character, as well as its high population density. The percentage of

figure 5-16

Greater Boston Region: Housing Supply

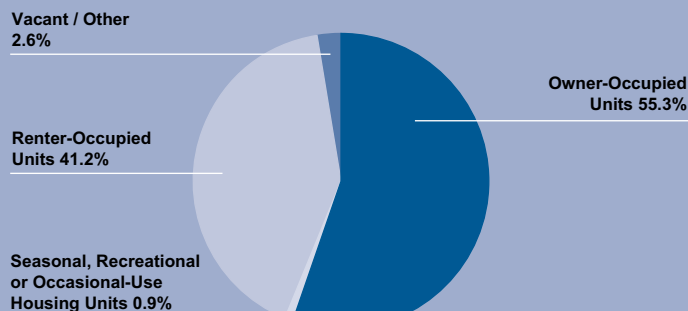


figure 5-17

Greater Boston Region: Home Ownership

	1990	2000	Difference
Greater Boston Region	55.0%	55.3%	0.3%
495 West Sub-region	68.2%	70.9%	2.7%
Massachusetts	59.5%	57.5%	-2.0%

Source: U.S. Bureau of the Census, Decennial Population Census

owner-occupied housing is close to that across the Commonwealth. However, the percentage of renter-occupied units is the highest of the seven Massachusetts Regions. Most of the rental housing is concentrated within the I-93/Route 128 belt. As evidence of this, owner-occupied housing accounts for 71 percent of all units in the I-495 West sub-region, considerably higher than the Region as a whole (see figures 5-16 and 5-17).

More important to the local economy than the mix of the housing stock is its cost. Average home prices in the Greater Boston Region are now over one-third higher than the average for the State. Further, home prices have increased at accelerating rates through the 1990s.

An important reason for Greater Boston's population expansion being concentrated in the I-495 belt is this sub-region's relatively low housing costs. Prices average about 10 percent below those of the Region as a whole, and they increased less quickly through the late 1990s.

Regional Strengths and Competitive Advantages

Greater Boston is an attractive place for businesses to locate and grow because it is uniquely blessed with the following strengths:

Educated workforce. In 1990, one-third of all residents aged 25 and older had completed four or more years of college, compared to one-in-five elsewhere in the Commonwealth. Whereas 83 percent in Greater Boston had graduated from high school, elsewhere in the State the figure was only 80 percent.

Colleges and Universities. The presence of world-class institutions of higher education has helped the development of the information technology and biotechnology industries, as well as anchoring the Knowledge Creation cluster. These institutions also provide support to the Region's teaching hospitals, which contribute to the area's unusually high concentration of medical facilities.

Transportation infrastructure. Public transportation is a major strength for parts of the Region, particularly the areas in and around Boston. The presence of the major highways of I-495 and I-93/I-95 has contributed immensely to the development of the entire Region. An international airport and major seaport are great assets. Though the seaport has been losing commercial business

to other major east coast ports, it has expanded its servicing of major cruise lines, which has helped the growth of the Travel and Tourism cluster.

Natural resources/environment. Parts of Greater Boston are blessed with ample drinking water from the Quabbin Reservoir. The upgrading of the MWRA sewage disposal system has contributed to a substantial improvement in the environmental quality of Massachusetts Bay. The Region has other initiatives that show a serious commitment to environmental quality, including watershed initiatives, community preservation programs, and brownfields programs.

Challenges to Future Growth

Congestion. Boston and its immediate vicinity remain hampered by the incomplete Central Artery Project. However, when completed, it should considerably improve road transportation in and out of the city. The interstate highways have played a major role in expanding commercial development. However, these highways have also led to congestion in the Region's more rural areas. The public transportation system is particularly weak in the I-495 area, putting additional pressure on narrow secondary roads.

Airport limitations. Logan Airport is reaching its limits in being able to handle the passenger and commercial traffic brought about by the Region's rapid growth during the 1990s. Although passenger traffic has declined with the recession and the tragedy of September 11th, this reduction is likely to be temporary. Future growth may be hampered without further expansion of satellite airports, such as Worcester and Hanscom, or the expansion of Logan itself.

High cost of living. The Region has always been at a competitive disadvantage because of its high cost of living, due particularly to high energy and housing costs. This has become much worse with the recent rise in housing prices. Issues of affordable housing remain significant in all communities. House purchases, for many middle class families, are becoming increasingly difficult. Firms in the area are finding that high home costs are complicating efforts to recruit new workers, while the high cost of living makes it difficult to retain graduates from its many colleges and universities.

Lack of regional cooperation. There is limited cooperation among neighboring communities in terms of planning for development and managing public services. Because the area is comprised of so many small communities, the failure to work together often leads to duplication of services or to developments in one community that negatively impact other communities.

⁸Peter B. Doeringer, Andrew Sum, and David Terkla, "Older Workers: An Essential Resource for Massachusetts," Commonwealth of Massachusetts Blue Ribbon Commission on Older Workers, April 2000.

⁹MAPC Comprehensive Economic Development Strategy (CEDS), December 2001.

¹⁰ Data describing change in race and ethnicity must be used with caution.

For more information, see the Part II Introduction.

Limited water supplies. Water availability is a serious concern for communities not served by the Quabbin Reservoir. Some commonly ration water during the summer and a lack of sufficient water hampers their economic development.

Inefficient land use. While there have been efforts to encourage development on brownfield sites in urban areas, many remain underutilized.

Labor shortages. The Region has been experiencing substantial labor shortages. Though these have eased with the recession, the long-term outlook is for shortages to worsen and hold back economic development. There are also substantial skill mismatches between the capabilities of workers who are being laid off by declining sectors and the needs of firms in expanding sectors. Contributing to this shortage of skilled workers are the continued challenges faced by our public school systems, particularly in urban areas.

Lack of access to suburban jobs. Greater Boston's urban areas became more racially and economically diverse in the 1990s. Yet, the same diversity has not reached many suburban areas. This is due, in part, to the high cost of housing in many suburban communities in the Region. Given the rapid employment growth in the I-495 sub-region, Greater Boston needs a strategy to help connect urban residents to suburban job opportunities.

Regional Policy Priorities

Workforce development

Expanding the skills and size of the workforce is a top priority for the Region. This reinforces the need for a comprehensive planning system for all publicly funded workforce development programs in the Commonwealth.

In April 2000, a Blue Ribbon Commission on Older Workers, established by then-Governor Cellucci, highlighted the importance of better integrating older workers into the workforce. This group of workers was shown to be the only sizable source of readily available labor in the near future and the pool of workers most likely to have the major skills needed by the New Economy. The Commission also recommended establishing an independent system for evaluating all workforce development programs in terms of long-term improvements in participant earnings and in reductions in skilled-labor shortages.

Basic skills and language training

The Region is increasingly dependent on foreign immigrants to meet its workforce needs. Many of these immigrants need English language and basic skills development programs, which are currently in short supply. As a result, there are long waiting lists for

access to many of these programs.

Affordable housing

There is a need to expand the stock of affordable housing in Greater Boston's communities. The Region needs an approach to housing issues that encourages the maintenance of good housing stock in urban areas and the efficient reuse of abandoned mill space and upper stories of street level businesses. It also needs to plan for housing in areas with rapidly expanding office parks. Innovative office park development, such as higher density, mixed commercial businesses and housing, should be encouraged.

Regional planning

This leads to a larger need for communities in the Greater Boston area to pursue more comprehensive regional planning. Executive Order 418, the Executive Office of Environmental Affairs (EOEA) program to provide all communities with build-out analyses,¹¹ has proven valuable. However, planning efforts are still not adequately regionalized. The I-495 Technology Corridor Initiative offers a useful model for other Greater Boston sub-regions. Consideration should be given to granting Greater Boston's regional planners powers similar to that of the Cape Cod Commission.

Transportation infrastructure

The Region needs transportation solutions that link the poorer towns bordering the city to centers of activity that can enhance their development prospects. It also needs improved public transportation for the I-495 sub-region to alleviate the congestion caused by the current expansion. If not addressed, that congestion will eventually discourage businesses from expanding and limit the attractiveness of the area for current and future residents.

Improved water supplies

The Region needs to undertake serious regional water resource planning, particularly to address the needs of communities not linked to the Quabbin Reservoir.

Linking the Region's Policy Priorities to Potential Solutions

Part III provides a variety of policy options that can help address the Region's economic development priorities: Figure 5-18 shows where to find relevant options.

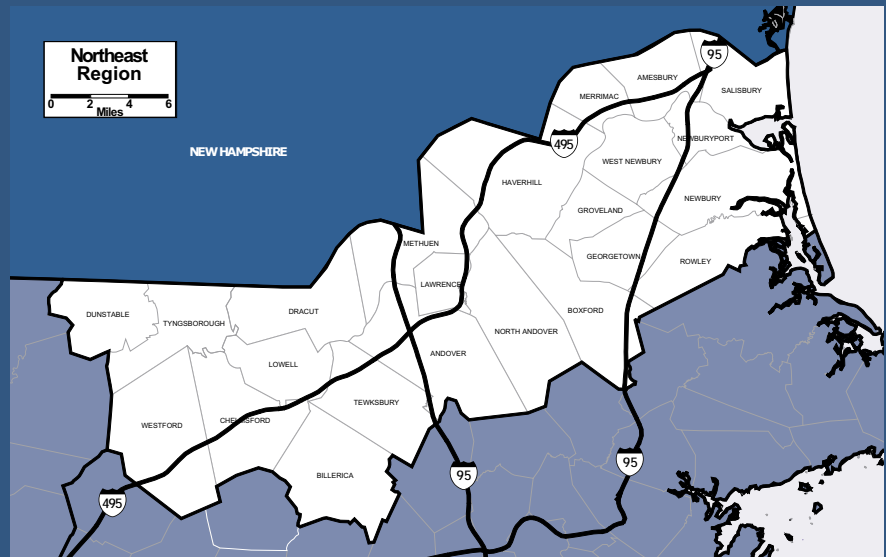
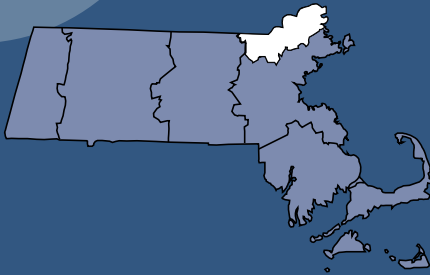
¹¹ A build-out analysis identifies land in a community where zoning laws allow for development. Such analyses typically project demographic and fiscal impacts resulting from development of this land.

figure 5-18

Policy Options for Regional Priorities Greater Boston Region

Workforce development	See "Our firms have access to the talent they need to succeed," pg. 123. See "Worker skills match the needs of business and the competitive environment," pg. 124. See, "Firms in our export industry clusters continually innovate to meet high value customer needs most effectively," pg. 119.
Basic skills and language training	See "Worker skills match the needs of business and the competitive environment," pg. 124.
Affordable housing	See "Massachusetts implements housing affordability solutions to support growing businesses and employees," pg. 129.
Regional planning	See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg. 128.
Transportation infrastructure	See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg. 128.
Improved water supplies	See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg.128.

northeast region



The Northeast Region borders New Hampshire to the north and the Atlantic Ocean to the east as far south as Rowley and extends along the I-495 corridor from Westford through Lowell and Lawrence to Salisbury. It includes large parts of Essex and Middlesex counties and twenty-three cities and towns ranging from the old mill cities of Lowell, Lawrence, and Haverhill to towns that have recently witnessed explosive growth, such as Andover, Chelmsford, and Westford.

Mills along the Merrimack River once fueled the nation's Industrial Revolution, and they fueled the economy of the Northeast Region into the post-World War II era. Since 1950, however, three

trends have dominated the regional economy: 1) the sharp decline of the textile industry; 2) the Cold War buildup and post-Cold War reduction of defense spending; 3) and the meteoric emergence and eventual flame-out of the minicomputer industry.

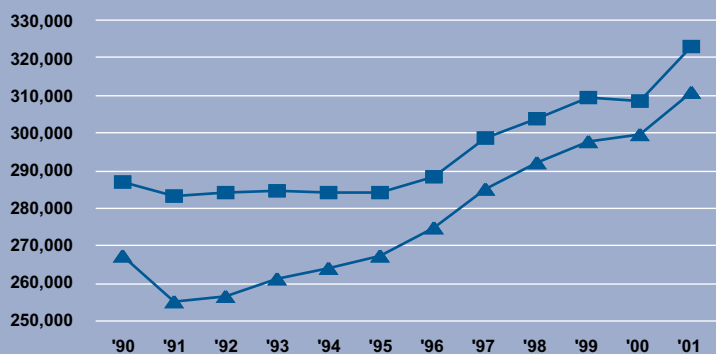
The legacy of its roller coaster economic history is a rich concentration of innovative national and international high-tech firms, many of them supported by an array of locally-owned companies, and a host of agencies and organizations concerned with issues such as job training, immigrant business assistance, and affordable housing that are key to the Region's sustained development. It has remained the State's high-tech manufacturing growth engine and a powerful stimulus for the Commonwealth's spectacular economic growth in the 1990s.

In addition to its strength in high-tech manufacturing, several cities and towns promote tourism linked to agriculture, the sea, or the nation's industrial heritage; parts of the Region are rural and relatively uncongested. Whale watches, cultural festivals, golf, beaches, coastal and mountain hiking, and professional baseball and hockey contribute to the Northeast's lifeblood.

Passenger rail connections run from Lowell to Boston, linking several cities along the North Shore, and rail service has recently expanded to include stops in New Hampshire and Maine. The Region is proximate to several airports, including Logan International, Hanscom Field, the Worcester regional airport, and Manchester, New Hampshire. Rapid industrial, commercial, and

figure 6-1

Northeast Region Labor Force and Employment



Source: Bureau of Labor Statistics, LAUS (Household)

■ Labor Force ▲ Employment

residential growth along its interstate and State highways, fueled by the late 1990s surge in high-tech manufacturing and software services, has generated significant automobile congestion and placed great stress on the Region's infrastructure.

Economic Overview

Employment¹

The Northeast Region responded well to the opportunities of the 1990s and performed significantly better than the Commonwealth as a whole. Spurred by vigorous growth in software, telecommunications, and related business services, employment grew 16 percent from 1990 to 2001 (versus 12.4 percent in the State), the workforce expanded 12.6 percent (versus 6 percent)(see figure 6-1), and the population 8.6 percent (versus 5.5 percent). Job creation exceeded workforce gains, especially from 1993 to 1996, causing unemployment to fall sharply (see figure 6-2). Until the downturn at the end of 2000, firms struggled to find engineers and other highly skilled workers to support this growth.

Employment by Major Industry Sector

What does the Region's industrial structure look like and how does it compare to that in 1993? In broad brushstrokes, there was a shift from manufacturing to services during the expansion that ran from 1993 until 2000. Although manufacturing employment² grew, the sector's share of employment slipped from 25.0 to 20.8 percent. Services gained a bit more than manufacturing lost, rising from 33.2 to 37.9 percent of employment in the Region (see figure 6-3).

There was no change in the industries that were the Region's top five employers from 1993 to 2000, although rankings shifted a bit (see figure 6-4).

When using annual payroll to identify the Region's top five industries, educational services and eating and drinking places fall off the list and are replaced by wholesale trade/durable goods and industrial and commercial machinery and computer equipment (see figure 6-5 on next page).

¹ The data in this section on the number of people employed, in the labor force, and unemployed are taken from the household survey. They therefore will not match the employer-based data used in other sections that report the number of payroll jobs.

² Employment is measured here using the Bureau of Labor Statistics, ES-202 series, which are employer reports of payroll jobs rather than household-based measures of employed or unemployed people. As a result, the numbers will differ from employment figures based on the household survey presented in other sections of the document.

figure 6-2

Northeast Region Unemployment Rate

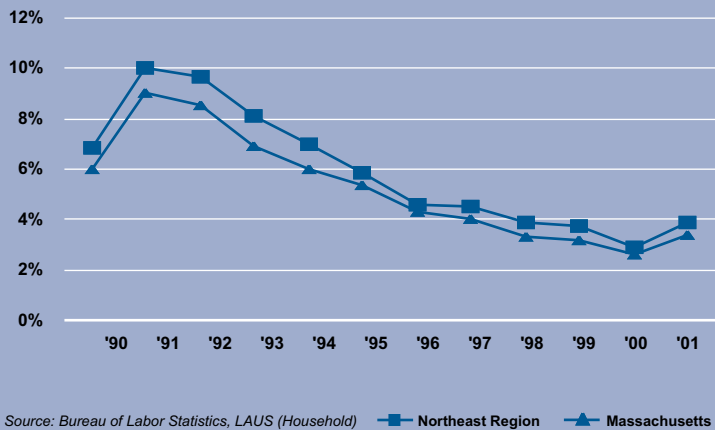


figure 6-3

Northeast Region Employment by Major Industry

	1993	2000	Percent of 2000 Total
Agriculture, Forestry, Fishing, and Mining	2,673	3,807	0.9
Construction	13,258	19,444	4.4
Manufacturing	87,995	91,419	20.8
Transportation and Public Utilities	16,759	21,242	4.8
Wholesale Trade	18,761	24,636	5.6
Retail Trade	70,017	79,976	18.2
Finance, Insurance and Real Estate	13,942	17,301	3.9
Services	116,987	166,366	37.9
Government	12,171	14,952	3.4
Total	352,563	439,143	100.0

Source: Division of Employment and Training, ES-202

figure 6-4

Northeast Region Top 5 Industries by Employment

Sector	1993	Persons	Sector	2000	Persons
Health Services		16,630	Health Services		41,876
Educational Services		36,745	Business Services		37,582
Eating and Drinking Places		10,504	Educational Services		36,148
Electronic Electrical Equipment & Components Except Computer Equipment		17,107	Eating and Drinking Places		28,400
Business Services		13,771	Electronic Electrical Equipment & Components Except Computer Equipment		22,357

Source: MA Division of Employment and Training

figure 6-5

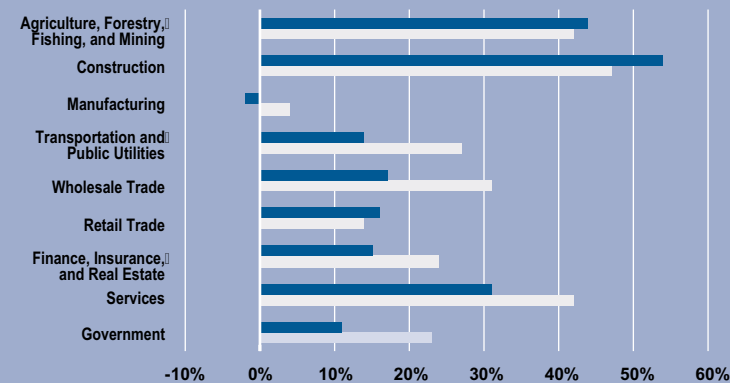
Northeast Region Top 5 Industries by Total Annual Payroll

1993		2000	
Sector	Year 2000 Dollars	Sector	Year 2000 Dollars
Health Services	1,330,152,745	Business Services	2,374,560,896
Transportation Equipment	931,974,188	Health Services	1,546,911,528
Educational Services	876,305,186	Wholesale Trade - Durable Goods	1,527,769,864
Electronic Electrical Equipment & Components Except Computer Equipment	868,083,667	Electronic Electrical Equipment & Components Except Computer Equipment	1,510,299,172
Machinery and Computer Equipment	829,801,756	Industrial and Commercial Machinery and Computer Equipment	1,288,016,168

Source: MA Division of Employment and Training

figure 6-6

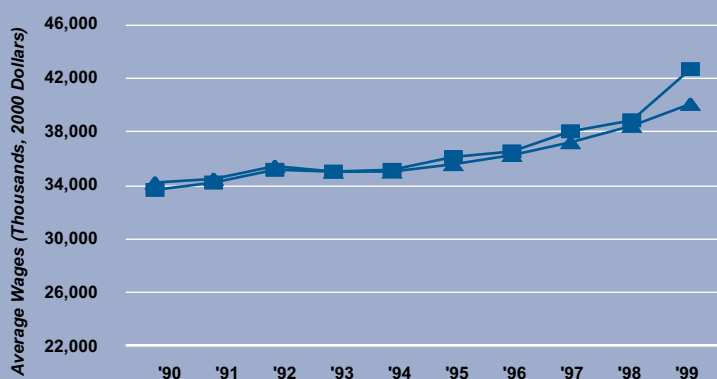
Change in Employment, by Major Industry, Northeast Region: 1993 to 2000



Source: MA Division of Employment and Training

figure 6-7

Northeast Region Average Real Wages



Source: MA Division of Employment and Training, ES-202

The Critical Importance of Manufacturing

The Commonwealth may lay legitimate claim to being the birthplace of American Industry, with the Northeast Region at its core. While the importance of manufacturing has declined in the Commonwealth as in the nation, it remains critical to the Region's economic well-being. Manufacturing establishments provide 20.8 percent of employment in the Northeast Region, well above the State figure of 13.4 percent. Pay in high-tech manufacturing establishments often far exceeds the State's average. Computer and related hardware manufacturing pays in excess of 185 percent of the State's average wage, industrial machinery manufacturing pays 174 percent, instruments 164 percent, and electronic equipment 151 percent. Because of these relatively high wages, manufacturing in the Northeast Region generates 29.5 percent of total payroll, compared to 16.7 percent statewide. Largely on the strength of its high-tech manufacturing sector, real average wages in the Region have tracked higher than the State average since 1995, widening the gap dramatically since 1998.³

Twenty-first century goods producers place great emphasis on capital-intensive activities and their investments often result in purchases from firms in the Region and the State. Goods producers also rely more and more on research into such things as new materials, the life sciences, opto-electronics, and wireless communications. Much of this research is conducted at colleges and universities and in private laboratories in the Northeast and Greater Boston Regions. Manufacturers apply state-of-the-art technologies to boost the output of their employees. Finally, they contract for many business services, such as payroll preparation, benefits calculation, marketing research, and specialized production that expand the regional economy. Manufacturing's significance thus spreads well beyond the employment figures and its importance cannot be underestimated (see figure 6-6 and 6-7).

The Northeast Region Export Sector

As explained in Chapter 2, a healthy Export Sector is critical to a Region's economic success. The sidebar in that Chapter on "The Massachusetts Export Sector" presented six large industry clusters as the key components of the Commonwealth's Export Sector. These clusters were identified in earlier State policy documents and studies, specifically *Choosing to Compete*⁴ and the more recent *Knowledge Sector Powerhouse*.⁵ They include four knowledge-based Clusters – Information Technology, Health Care, Financial Services, and Knowledge Creation. They also include two clusters that are less knowledge intensive; Travel and Tourism and, "Traditional Manufacturing" (manufacturing industries, such as paper, plastics and rubber, metalworking, and machinery, that are not part of the Information Technology or Health Care clusters). The discussion below uses this framework to explore the Northeast Region's export sector.

Figure 6-8 shows export cluster growth in the region as compared to Massachusetts. When interpreting the results of our analysis, please note that the employment figures reported for these large industry clusters are not meant to represent export sector jobs. The Health Care Cluster, for example, includes physicians serving the local population. A finer picture of the composition of the Region's export sector, and the extent to which it has become part of the wider Knowledge-based Economy, is developed in the discussions that follow. Also, note that some of the following charts show no data for some industries in the export clusters. This does not necessarily mean that the industry is absent. Federal rules prohibit access to data that could provide information about individual firms. The lack of industry data could be due to this limitation.

Knowledge Creation

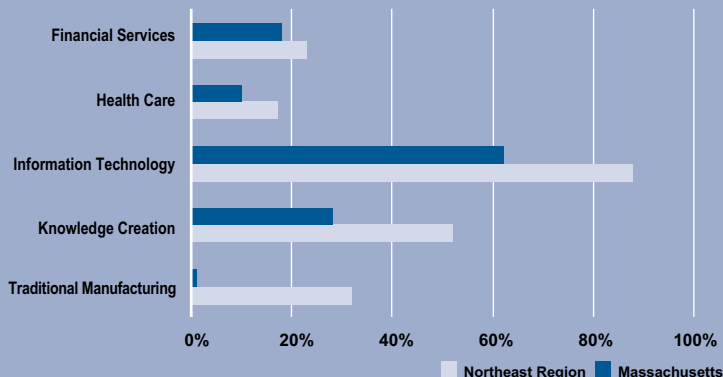
Growth in employment in the Knowledge Creation export cluster generally mirrored that of the State. The higher education sector, grew substantially in both absolute and percentage terms. Employment in this sector grew from 1,927 in 1993 to 5,338 in 2000. Significant growth was also experienced by the engineering and architectural services sector. Firms in this sector had employment growth of 76% (+1,082 jobs) during this same period (see figure 6-9). A growing demand for highly-skilled "knowledge workers" by the Region's high-tech employers may be partly responsible for higher education growth.

Information Technology

Both the hardware and software sectors expanded rapidly, adding jobs between 1993 and 2000. The surge in communications hardware manufacturing, which emerged to build-out of the worldwide Internet, wireless, and networking revolution, was nothing short of astounding. Only that performance could take the luster away from the impressive growth of Region's computer and communications software and services industries which added nearly 7,500 jobs between 1993 and 2000. Computer, electronic, and electrical equipment manufacturing did not see much employment growth over the 1990s (see figure 6-10). Nevertheless, electronic and electrical equipment and the large SIC "industrial machinery" category, which includes computers and related hardware, ranked first and second in the State for total dollar value of exports throughout much of the 1990s.

figure 6-8

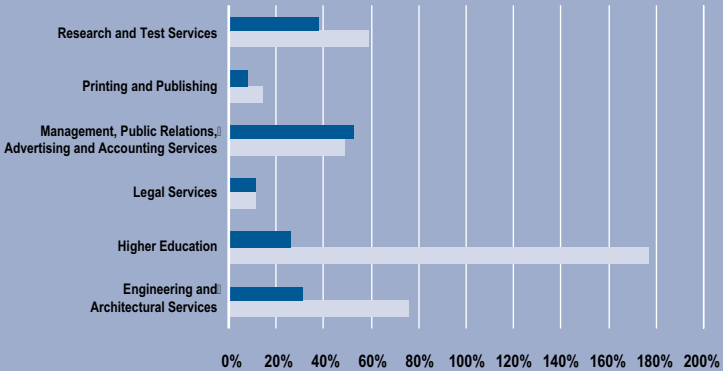
Employment Change in the Commonwealth's Export Clusters: Northeast Region, 1993 to 2000



Source: Forrant et al., "Knowledge Sector Powerhouse." University of Massachusetts Donahue Institute. 2001

figure 6-9

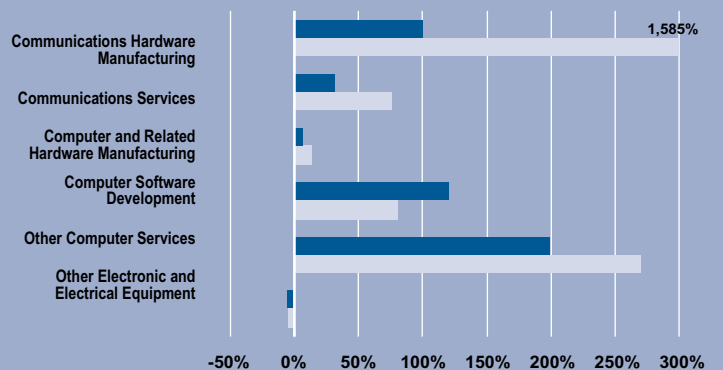
Knowledge Creation: Change in Employment, Northeast Region: 1993 to 2000



Source: MA Division of Employment and Training

figure 6-10

Information Technology: Change in Employment, Northeast Region: 1993 to 2000



Source: MA Division of Employment and Training

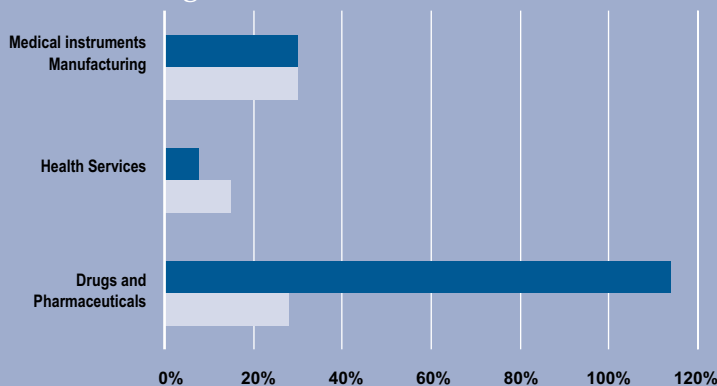
³ The U.S. consumer price index (CPI) was used to adjust nominal wages for the effects of inflation.

⁴ Massachusetts Executive Office of Economic Affairs and the University of Massachusetts, (Boston, 1993).

⁵ Robert Forrant, Philip Moss, and Chris Tilly, (Boston: UMass Donahue Institute, 2001).

figure 6-11

Health Care: Change in Employment, Northeast Region: 1993 to 2000



Source: MA Division of Employment and Training

■ Northeast Region ■ Massachusetts

Health Care

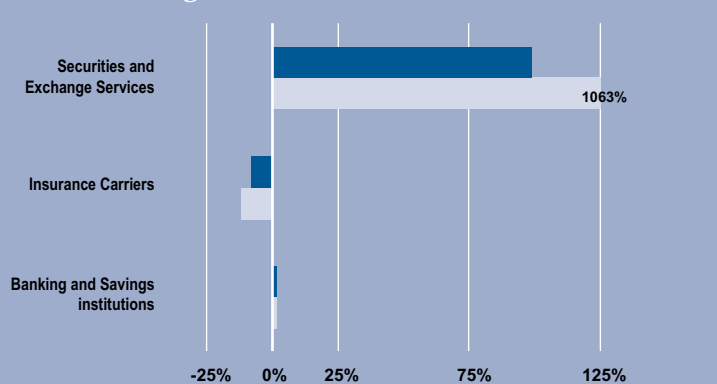
Employment in the Region's large Health Care Cluster was led by health services, which added over 5,000 jobs between 1993 and 2000, and expanded at a rate exceeding that of the State (15% in the Region, 8% versus for the State as a whole). Regional employment in the dynamic medical instruments manufacturing sector expanded at the same rate as the State as a whole. While the drugs and pharmaceuticals sector grew robustly – employment expanded 28% between 1993 and 2000, this sector grew much more slowly in the Northeast than it did statewide (see figure 6-11).

Financial Services

During the 1990s, the Northeast Region became increasingly attractive to financial services firms seeking locations for “back office” facilities. This can be seen in the tremendous growth in employment in the securities and exchange services sector which added over 2,200 jobs between 1993 and 2000. During this same period employment in the Insurance sector declined by 12 percent. Employment in the banking sector remained level. (see figure 6-12)

figure 6-12

Financial Services: Change in Employment, Northeast Region: 1993 to 2000



Source: MA Division of Employment & Training

■ Northeast Region ■ Massachusetts

Traditional Manufacturing

Much of the Region's business activity is concentrated along the I-495 corridor at the intersections of I-495, I-93, and I-95. Many of the jobs are in three high-skill, high-wage, export-oriented industries: fabricated metal, industrial machinery (not including computer and related hardware), and instruments (see figure 6-13).

Travel and Tourism

The growing impact of the Travel and Tourism cluster in the Northeast Region can be clearly seen in the Region's hotel industry. In the year ending June 2000, hotels and motels in Essex County grossed an estimated \$112 million in room sales, up 29 percent over the year ending June 1997.⁶ These expenditures define a conservative estimate of traveler spending. This is because total spending typically includes meals, retail purchases, and attractions, in addition to spending on accommodations.

Room sales growth, which lagged behind the statewide growth rate of 37 percent, supported limited growth in the industry. Between 1997 and 2000, the number of hotels in Essex County remained constant, at eighty-two. Employment expanded 36 percent, to 2,716 workers. Pay in the industry is low, and frequently offers mostly part-time jobs. Yet average real wages increased 25 percent in this period, to \$20,044.

figure 6-13

Traditional Manufacturing: Change in Employment, Northeast Region: 1993 to 2000



Source: MA Division of Employment and Training

■ Northeast Region ■ Massachusetts

Demographics

Population

A strong economy contributed to an 8.6 percent increase in the Region's population. This compares favorably to the 5.5 percent growth across the Commonwealth and resulted in a slight gain in the Region's share of the State population (see figure 6-14).

Resident Age Distribution

The Region's population is aging. In the decade of the 1990s, its median age increased by three full years, going from 32.3 to 35.3 years, compared to the Commonwealth's increase of 2.8 years, from 33.8 to 36.6. Residents aged 19 to 44 made up 45 percent of the regional population in 1990, but only 40 percent in 2000. This is a worrisome trend, for it implies the loss of a portion of the college-educated skill base. Nor can the Region expect much relief in the future: the 19-24 cohort fell more than 20 percent, from 58,733 to 46,845 (see figure 6-14).

Just as this skill base loss poses a significant challenge, so too does the growth of the under-18 population. Cities and towns are expected to educate this burgeoning group, a task made difficult by any protracted economic downturn or decline in tax revenues. The largest population gain came in the 45-64 cohort. As these older workers retire, they will join the under-18 cohort in requiring an array of public services, such as daycare and elderly housing. The fall-off of residents 19-24, as well as low growth among the 25 to 44 cohort portends labor shortages and a shrinking taxpayer base.

Resident Racial Distribution

The Region's population was almost 90 percent White in 1990, compared to 86 percent in 2000. Slightly more diverse than the State as a whole, the Northeast Region's non-white population resides mainly in Lowell and Lawrence. The Region also has the largest percentage of Hispanics anywhere in the Commonwealth other than the Pioneer Valley.⁷

⁶ Estimate based on FY 2000 State room occupancy tax collections, which are levied at 5.7% of the room rate.
⁷ Data describing change in race/ethnic mix must be used with caution. For more information, see the Part II Introduction

figure 6-14
Northeast Region Demographic Summary

	Northeast Region			MA		
	1990	2000	Change	1990	2000	Change
Total population	541,841	588,639	8.60%	6,016,425	6,349,097	5.50%
Age (share of total)						
Under 18	26.0%	27.1%	1.1%	22.5%	23.6%	1.1%
19-24	10.8%	8.0%	-2.9%	11.8%	9.1%	-2.7%
25 to 44	33.9%	31.8%	-2.0%	33.6%	31.3%	-2.2%
45 to 64	17.8%	21.8%	4.0%	18.5%	22.4%	3.8%
65 and over	11.5%	11.3%	-0.2%	13.6%	13.5%	-0.1%
Race/Ethnicity (share of total)						
White	89.6%	83.8%	-5.9%	89.8%	84.5%	-5.3%
Black	1.9%	2.0%	0.2%	5.0%	5.4%	0.4%
Asian	3.4%	5.0%	1.7%	2.4%	3.8%	1.4%
Other race	5.1%	6.9%	1.8%	2.8%	4.0%	1.2%
Two or more races*	na	2.2%	na	na	2.3%	na
Hispanic (of any race)	8.7%	12.1%	3.4%	4.8%	6.8%	2.0%

* the category of persons with two or more races did not exist in the 1990 Census
Source: U.S. Bureau of the Census, Decennial Population Census

figure 6-15
Northeast Region Housing Supply

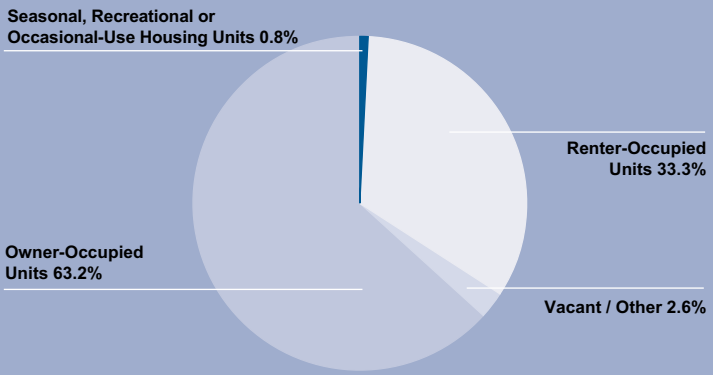


figure 6-16
Northeast Region Home Ownership

	1990	2000	Change
Northeast Region	62.0%	63.2%	1.2%
Massachusetts	59.5%	57.5%	-2.0%
% Over / Under State	2.5%	5.7%	3.2%

Source: U.S. Bureau of the Census, Decennial Population Census

Housing

The Region faces a serious housing problem that places a major roadblock in front of long-term community development. Housing prices have gone up faster than incomes and there is a shortage of rental units. A detailed study of the housing issue in the Merrimack Valley conducted by the University of Massachusetts Lowell's Center for Family, Work, and Community concluded that the Merrimack Valley has too few units and, the units that do exist are too expensive. The problem will only worsen over time, because new units are not being created quickly enough. In 2000, the region-wide vacancy rate for apartments was 2.6 percent; in June 2001, the rate in Lowell was one percent. It is estimated that the demand for rental housing in greater-Lowell will exceed the supply by over 2,000 units in 2004, with affordable units disappearing at an alarming rate. This represents a serious challenge, since approximately 34 percent of Northeast residents are renters (see figure 6-15 and 6-16 on previous page).

The Merrimack Valley Planning Commission linked two important issues – brownfields development and housing – in its May 2001 report entitled, “Economic Development Strategy for the Merrimack Valley.” It suggested the residential reuses of older mill buildings “to provide housing for employees and to enliven the districts at night.” Individual cities and towns cannot resolve the shortage by themselves. Community-based organizations, labor unions, local and regional community development corporations, immigrant organizations, and faith-based organizations must cooperate to resolve the housing crunch.

Regional Strengths and Competitive Advantages

Four keys to the Region's past success were: access to water power, skilled craft labor, transportation, and the latest in mill technology. The area continues to enjoy a strong skill base, though demographic trends and the fast pace of change in many jobs in the New Economy indicate that we should not take this strength for granted. Looking ahead, the Region's critical strengths are:

Skilled workforce. A concentration of excellent technical high schools and educational institutions provides a solid foundation for economic prosperity. Labor unions and faith-based organizations also contribute to workforce education and training to boost the skill base and keep the Region attractive for employers. These groups also help keep work in the Region, attract new investments, and encourage start-ups.

Immigrant contributions. Lowell alone has over 300 immigrant-owned businesses, representing people from at least 22 different countries. These entrepreneurs serve the consumer needs of their communities, add value to the broader service sector, and revitalize

our neighborhoods. Immigrant workers are concentrated in skilled and semiskilled production across the Commonwealth's manufacturing industries, which provide “a major share of the State's exports to other states and to other countries.”⁸

Culture of collaboration. A shared perspective on what it takes to create an equitable and sustainable economy is beginning to take shape. As the Northeast moves away from a reliance on a handful of dominant employers, these emerging networks may represent the best hope for the regional economy. Collaborative efforts can focus attention on important environmental concerns, establish broad-based coalitions to address the housing crisis, raise awareness of the important role that immigrants play in the social and economic life, and help launch and support new ventures that generate income for the Region.

Challenges to Future Growth

Many families did not benefit from the 1990s boom. Average family income for the bottom 40 percent of families has not grown since 1993, and both child poverty rates and the use of emergency housing and food services have increased.⁹ Decreased access to affordable housing and the failure of the last business expansion to reach all sectors of the population, particularly in its older mill cities, means there is much work to do to safeguard and enhance the Region's strengths.

Affordable housing. For many workers employed in the service sector or in part-time jobs, wages have not kept pace with the purchase price of a home or rent on a three- or four-bedroom apartment. Nor has the construction of affordable rental units kept pace with demand. From 1996 to 2000, average home prices in the Northeast increased 51 percent to \$194,372 from \$128,389, compared to a State increase of 48 percent to \$205,312 from \$139,018.

Creating opportunities for low-skilled workers. As home to some of the State's poorest areas, there is concern about what will happen to students who may not pass the MCAS tests. The dropout rate in many of the Region's high schools is already extremely high, and every effort must be made to see that educational reform enhances, rather than diminishes, the prospects of our young people. There is also concern about what single mothers, particularly those that have used up their years of welfare eligibility, will do in a regional economy that offers few jobs to those with limited skills.

Brownfields. Much of the Region's recent growth proceeded on so-called greenfield sites. For many communities, however, such buildable space is just about gone. Old industrial and commercial buildings at the center of our largest cities and towns are typically

viewed as liabilities rather than assets. Overcoming this perception, reusing older buildings, and revitalizing our urban spaces will be critical if the Region is to have adequate developable land to support its future growth.

Transition in Community Leadership. The Region's large employers have traditionally guided its educational, economic, and civic resources. As these companies break up and disappear, this leadership vacuum needs to be filled. Community-based organizations, start-up businesses, grassroots coalitions, broad-based development agencies, labor unions, and higher education play increasingly important roles in addressing issues bearing on the Region's long-term development.

The recent drop-off in manufacturing. There have been massive layoffs in the information technology and high-tech manufacturing sectors since mid-2000, and hiring has virtually stopped for a host of high-paying jobs. This could have a serious ripple effect across the Region. A loss of thousands of good jobs will affect the housing market. Hundreds of relatively new retail and service companies, such as day care, lawn care, restaurants, take-out food, upscale car dealerships, Web design firms, home remodeling, will also face challenges when their customer's disposable income dissolves.

Regional Policy Priorities

The Northeast has an impressive concentration of innovative high-tech firms. They are supported by a diverse subset of locally-owned companies and a host of agencies and organizations concerned with issues such as job training, immigrant business assistance, and affordable housing. It also has public and private higher education institutions—including the University of Massachusetts Lowell, Northern Essex Community College, Middlesex Community College, and Merrimack College—that are deeply committed to the social and economic development of northeastern Massachusetts. This community, however, has a few clear issues to address:

Better training for low-skilled workers. There is also a need for improved coordination and service delivery of Adult Basic Education and English classes for speakers of other languages. Such programs are especially important to the cities that have experienced an influx of non-English speaking immigrants.

Redevelopment of brownfields. Progress has been made in several cities, most notably in Lowell. Andover, Haverhill, Lawrence, Lowell, Newburyport, and other cities have also turned abandoned mill sites and defunct malls into attractive space for high-tech manufacturing start-ups, software companies, design studios, university laboratories and offices, restaurants, and retail uses. Nevertheless, a regional strategy to reclaim old mill space is essential if the older cities are to flourish.

Diversifying the Region's economic base. Reliance on a relatively small number of major employers has made the Region vulnerable to economic downturns. The latest recession hit the area hard and resulted in a significant loss of jobs in high-tech manufacturing. A sustained and coordinated effort will be needed to ensure that the Region is better prepared to weather future economic downturns.

Linking the Region's Policy Priorities to Potential Solutions

Part III provides a variety of policy options that can help address the Region's economic development priorities. Figure 6-17 shows where to find relevant options.

figure 6-17

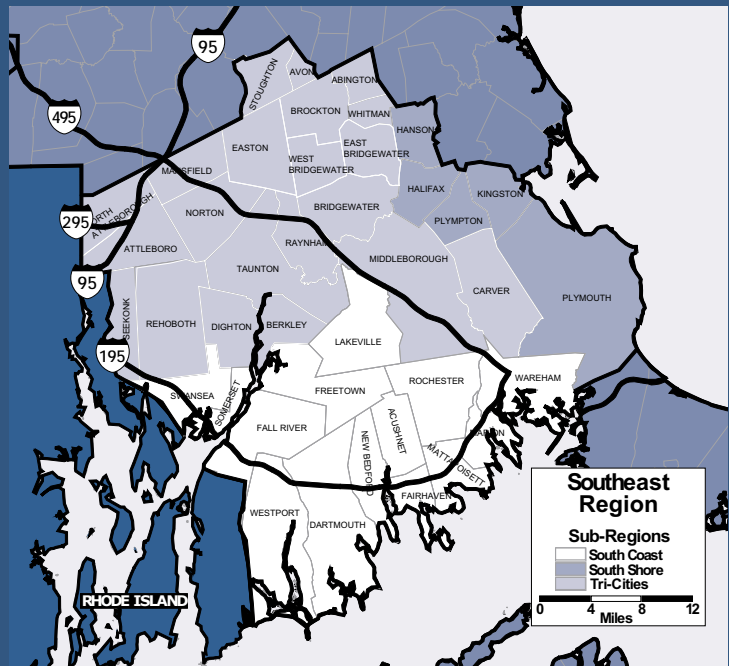
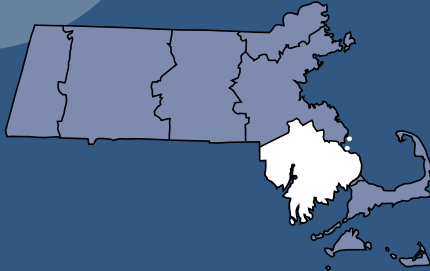
Northeast Region Policy Options for Regional Priorities

Policy Priority	Policy Options, Under Desired Outcomes in Part III
Better training for low-skilled workers	See "Worker skills match the needs of business and the competitive environment," pg. 124.
Brownfields redevelopment	See "Massachusetts is a leader in implementing development strategies that preserve high quality of life," pg. 128.
Diversifying the region's economic base	See "A statewide climate where entrepreneurs flourish," pg. 119. See "Reduced disparities in entrepreneurial opportunities," pg. 120. See "A Strengthened technological innovation infrastructure," pg. 121. See "Strong export industry clusters throughout Massachusetts," pg. 118. See "Firms in our export industry clusters continually innovate to meet high-value customer needs most effectively," pg. 119. See "State government provides more effective and better coordinated services to businesses, particularly small businesses," pg. 131.

⁸ W. Neil Fogg, Neeta Fogg, and Andrew Sum, *The Changing Workforce: Immigrants and the New Economy in Massachusetts*, Boston, The Massachusetts Institute for a New Commonwealth, 1999. Lawrence has the highest percentage of Hispanic residents in Massachusetts (60%), and Lowell the highest percentage of Asian residents (17%) (Merrimack Valley Economic Development Council, U.S. Census reveals growth, and change as the Merrimack Valley heads into a new century, Report, 2, May-June, 2001.) For an analysis of immigrant-owned enterprises in Lowell, see Linda Silka and Robert Forrant, "Moving Toward Equity and Economic Empowerment: Some Observations on Immigrant and Ethnic Enterprises in Lowell, Massachusetts," University of Massachusetts Lowell Department of Regional Economic and Social Development, unpublished paper, March 1999.

⁹ Randy Albelda, Donna Haig Friedman, Elaine Werby, "Still Struggling to Survive," *Boston Globe*, July 6, 2001, A23; Kimberly Blanton, "In N.E., Boom and Less Thunder," *Boston Globe*, June 19, 2001, D1.

southeast region



On the map, Southeastern Massachusetts looks like a compact diamond, with Brockton to the north, Fall River and New Bedford to the south, Plymouth to the east, and Attleboro to the west. The Region is known for its favorable cost climate and for a workforce that is highly motivated, but that ranks well below the State average for its educational level and job skills. Over the 1990s, the region's population, workforce, and employment totals grew respectably, though a bit slower than the Commonwealth as a whole.

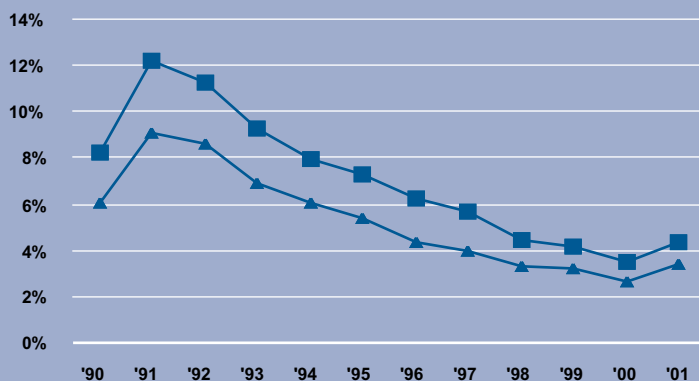
Southeastern Massachusetts is more complex than it appears to be on a map. What makes the region so complex is the uneven progress its three distinct sub-regions have made in addressing the decline of their traditional industries and the transition to the new knowledge-based economy. As indicated on the map, the three sub-regions are:

- 1) The Tri-Cities of Attleboro, Brockton, and Taunton at the intersection of Route 24 and I-495. This sub-region extends beyond the northern border of the Southeast Region as defined for this analysis.
- 2) The South Shore, running down Route 3 from Boston; this sub-region also extends beyond the northern border of the Southeast Region as defined for this analysis.
- 3) The South Coast, connected by I-195 along Buzzard's Bay and into Rhode Island.¹

Diverging transportation networks and the differential influence of the Boston and Providence metropolitan economies increasingly divide these sub-regions. These lead to sharp differences in commuting patterns, labor market attachments, economic-base composition, and sub-regional demographic profiles.² After a review of the Region, we will examine each of these sub-regions in greater detail.

figure 7-1

Southeast Region Unemployment Rate



Source: Bureau of Labor Statistics, LAUS (Household) — Southeast Region — Massachusetts

Economic Overview

Employment¹

During the expansion running from 1993 to 2000, total employment in the Southeast Region increased 16.9 percent, compared to a statewide gain of 20.1 percent (see figure 7-2). Confirming the relative sluggishness in its labor market, unemployment was consistently about 30 percent higher than the average for the State. Joblessness peaked in the previous decade at 12.2 percent in 1991 and achieved its most recent low of 3.5 percent in 2000 (see figure 7-1).

Average real wages⁴ in the Southeast Region increased by 5.5 percent during the expansion through 1999, rising from \$28,652 in 1993 to \$30,237 in 1999. This compares to a 14.4 percent statewide increase, from \$35,082 to \$40,127. At the end of the decade, wages throughout the Commonwealth were about one-third higher than they were in the region (see figure 7-3).

A major explanatory factor was the Region's relatively low educational attainment. In 2000, 27 percent of Bristol County residents aged 25 and older did not have a high school diploma in 1990; over 12 percent of Plymouth County residents have not earned this qualification. This compares to 15 percent statewide. Similarly, only 20 percent of Bristol County residents and 28 percent of Plymouth County residents have a bachelor's degree or higher, compared to 33 percent statewide.

The Region's largest sectors remain services and retail trade, with services increasing its share during the expansion from 1993 to 2000 (see figure 7-4). Services, however, also saw a decline in average real wages (see figure 7-6 on next page). The significance of manufacturing as a major employer continued its decline, especially in the older industrial cities of Brockton, Fall River, and New Bedford. Yet manufacturing remains important to the Region, as it accounts for 17.2 percent of total employment compared to 13.3 percent statewide.

figure 7-2

Southeast Region Labor Force and Employment

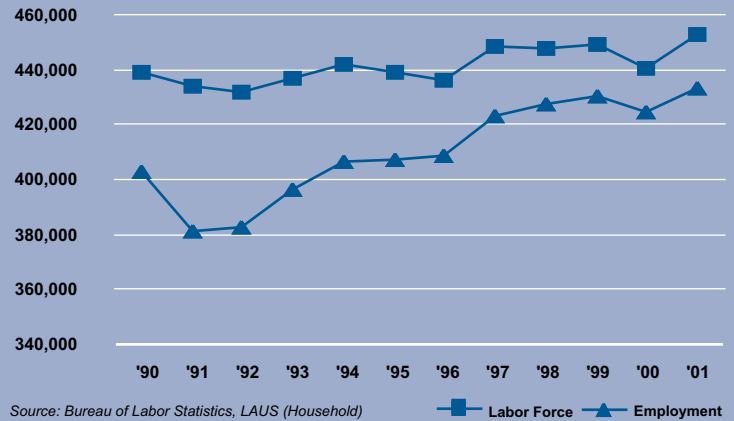


figure 7-3

Southeast Region Average Real Wages



figure 7-4

Southeast Region Employment by Major Industry

	1993	2000	Percent of 2000 Total
Agriculture, Forestry, Fishing, and Mining	3,411	4,044	1.2
Construction	11,945	15,911	4.5
Manufacturing	63,394	60,416	17.2
Transportation and Public Utilities	17,174	19,656	5.6
Wholesale Trade	19,282	22,408	6.4
Retail Trade	73,419	85,736	24.5
Finance, Insurance, and Real Estate	9,545	9,847	2.8
Services	90,784	118,864	33.9
Government	10,800	13,367	3.8
Total	299,754	350,249	100.0

Source: Division of Employment and Training, ES-202

¹ Southeastern Regional Planning and Economic Development District, *Regional Growth Trends* (Taunton, Mass., October 1999).

² Clyde W. Barrow, "Southeast Massachusetts: Staying Ahead of the Curve - A Second Chance," *Massachusetts Benchmarks* (Fall 1997) p.15; Clyde W. Barrow, "Southeastern Massachusetts: A Region of Growth Without Development," *Massachusetts Benchmarks* (Summer 1998), pp. 9-10, 15-17.

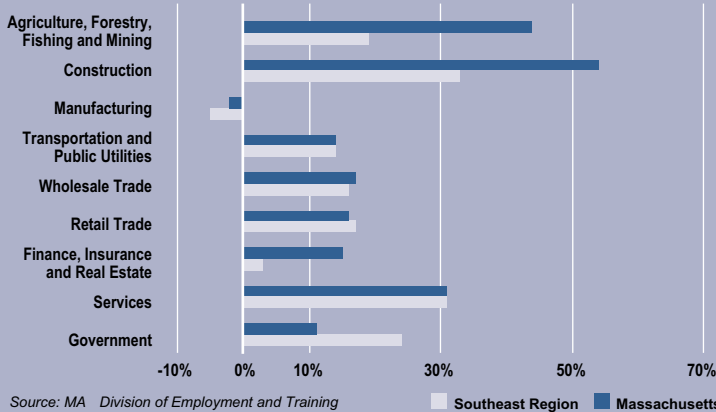
³ The data in this section on the number of people employed, in the labor force, and unemployed are taken from the household survey. They therefore will not match the employer-based data used in other sections that report the number of payroll jobs.

⁴ The U.S. consumer price index (CPI) was used to adjust nominal wages for the effects of inflation.

⁵ Employment is measured here using the Bureau of Labor Statistics, ES-202 series, which are employer reports of payroll jobs rather than household-based measures of employed or unemployed people. As a result, the numbers will differ from employment figures based on the household survey presented in other sections of the document.

figure 7-5

Change in Employment, by Major Industry, Southeast Region: 1993 to 2000



The Southeast Region Export Sector

As explained in Chapter 2, a healthy export sector is critical to a region's economic success. The sidebar in that Chapter on "The Massachusetts Export Sector" presented six large industry clusters as the key components of the Commonwealth's export sector. These clusters were identified in earlier State policy documents and studies, specifically *Choosing to Compete*⁶ and the more recent *Knowledge Sector Powerhouse*.⁷ They include four knowledge-based clusters: Information Technology, Health Care, Financial Services, and Knowledge Creation. They also include two clusters that are less knowledge intensive: Travel and Tourism, and "Traditional Manufacturing" (manufacturing industries, such as paper, plastics and rubber, metalworking, and machinery, which are not part of the Information Technology or Health Care clusters). The discussion below uses this framework to explore the Southeast Region's export sector.

figure 7-6

Change in Real Average Pay, by Major Industry Southeast Region: 1993 to 2000



Figure 7-7 shows export cluster growth in the Region, as compared to Massachusetts. When interpreting the results of our analysis, please note that the employment figures reported for these large industry clusters are not meant to represent export sector jobs. The Health Care cluster, for example, includes physicians serving the local population. A finer picture of the composition of the Region's export sector, and the extent to which the Region has become part of the wider knowledge-based economy, is developed in the discussions that follow.

In the clusters making up the Commonwealth's Export Sector, employment in Southeastern Massachusetts is concentrated in Health Care, Information Technology, and Knowledge Creation.

In Health Care, three out of four jobs are in hospitals, doctor's offices, and other medical facilities. Given the changing demographics in Southeastern Massachusetts, the growth in health services employment may be due to increasing demand for these services by an aging population.

figure 7-7

Employment Change in the Commonwealth's Export Clusters: Southeast Region, 1993 to 2000



IT employment growth was concentrated in communication services, which added 1,556 jobs between 1993 and 2000. This industry also experienced a substantial gain in pay, with average real wages rising 75 percent.

Knowledge Creation growth was driven by a 52 percent increase in employment in Professional Services (including accounting but not legal) and a 49 percent gain in Higher Education.

Trends in the hotel industry show the growing impact of the Travel and Tourism cluster in the Region. In the year ending June 2000, hotels and motels in Plymouth and Bristol counties grossed an estimated \$67.5 million in room sales, up 30 percent over the year ending June 1997.⁸ These expenditures provide a conservative estimate of traveler spending. This is because total spending typically includes meals, retail purchases, and attractions, in addition to spending on accommodations.

Room sales growth, which lagged behind the statewide growth rate of 37 percent, supported limited growth in the industry. Between 1997 and 2000, the number of hotels in Bristol and Plymouth counties fell from 69 to 66 percent. Employment expanded eight percent, to 1,612 workers. Pay in the industry is low and frequently offers mostly part-time jobs. Yet average real wages increased 16 percent in this period, to \$14,700.

Critical Industries of the Southeast Region

In addition to analyzing the export base of Southeast Massachusetts, it is also useful to examine the critical industries of the region. The Region's Top Five Industries are health services, professional services, business services, high technology, and distribution. These industries provide 39.5 percent (138,348) of total employment (350,249), and they include many sectors that were among the Region's fastest growing employers from 1993 to 2000 (see figure 7-8).

The Sub-Regions of Southeastern Massachusetts

The South Shore Area

The South Shore area consists of 12 towns in Plymouth County, five of which are located in the "Southeast Region" proper. It is the smallest sub-region, yet the fastest growing, with 197,074 residents in the 2000 Census, 11.0 percent more than in 1990. There are no cities in the South Shore. But the area's two largest towns, Plymouth (51,701) and Marshfield (24,324), account for 38.6 percent of the area's population.

The South Shore area is now largely a suburban adjunct to the Boston metropolitan economy. It is included in the Boston metro-

politan statistical area (MSA). The area's rapid population growth is the result of commuters moving southward along Route 3 in search of lower housing costs, better schools, and a suburban or rural quality of life. The South Shore's unemployment rate, educational attainment levels, and personal incomes move in tandem with statewide averages because of its close proximity to the Boston MSA.

The South Shore economy is largely dependent on population growth and the local demand for retail trade and services created by Boston commuters. The South Shore's most significant business clusters are allied health services and high-end business services that market to Boston-area businesses, and an increasingly vibrant off-Cape tourism market (see figure 7-9 on next page).

The allied health services cluster, which provides care primarily for the local population, accounted for 9.2 percent of total employment in 2000. Population growth and the availability of Medicare and Medicaid reimbursements for services to the elderly supported growth in this cluster during much of the 1990s.⁹ However, government cutbacks in reimbursements and fee caps, cost controls implemented by HMO's and nursing homes, and a slow down in population growth constrained earnings and employment.¹⁰ The sector shed over 100 jobs between 1997 and 2000 and its share of total employment fell from 10.0 to 9.2 percent.

figure 7-8

Significant Business Clusters: Southeast Region

	1993 Average Earnings (Real) \$	2000 Average Earnings (Real) \$	1993 Percent of Area's Employment	2000 Percent of Area's Employment
Massachusetts	39,710	46,805		
Southern Region	30,802	32,348		
Allied Health Services	37,187	36,698	11.5	11.4
Professional Services	37,021	36,875	9.3	9.9
Business Services	21,518	26,205	2.9	4.0
High Technology	46,025	56,829	6.3	6.7
Distribution	45,133	46,795	7.7	7.5
			37.7	39.5

Source: MA Division of Employment & Training, ES-202

⁶ Massachusetts Executive Office of Economic Affairs and the University of Massachusetts, (Boston:, 1993).

⁷ Robert Forrant, Philip Moss, and Chris Tilly, (Boston: UMass Donahue Institute, 2001). ⁸ Estimate based on FY 2000 State room occupancy tax collections, which are levied at 5.7% of the room rate.

⁹ Regional Employment Boards of Bristol, Brockton, Greater New Bedford, and South Coastal, *Anatomy of Employment Needs in the Allied Health Industry in Southeastern Massachusetts*, 1995.

¹⁰ Polly Saltonstall, "Hospitals Protest Medicare Cuts," *New Bedford Standard-Times*, July 21, 1999, p. A3.

figure 7-9

Significant Business Clusters in Southeastern Massachusetts

	1997 Average Earnings \$	1997 Average Earnings (\$2000)	2000 Average Earnings (\$2000)	1997 Percent of Area's Employment	2000 Percent of Area's Employment
South Shore Area Total	27,525	29,531	33,121		
Services					
Allied Health Services	28,780	30,878	32,907	10.0	9.2
Business Services	35,986	38,609	43,517	8.1	8.5
Tourism	13,281	14,249	14,346	4.8	5.4
Tri-Cities Area Total	29,306	31,442	33,498		
Services					
Allied Health Services	32,313	34,669	35,228	8.7	8.6
Business Services	28,040	30,084	32,638	4.8	5.9
Manufacturing					
High Technology	44,763	48,026	51,550	3.4	3.6
Metals Manufacturing	36,112	38,744	40,491	2.4	1.8
Distribution	35,661	38,261	46,672	9.5	8.5
South Coast Area Total	25,886	27,773	29,162		
Services					
Allied Health Services	29,222	31,352	32,172	13.3	13.5
Business Services	24,281	26,051	25,556	3.9	4.1
Manufacturing					
High Technology	24,319	26,092	26,845	9.1	7.2
Metals Manufacturing	42,848	45,971	42,725	2.4	3.0
Distribution	29,331	31,469	33,613	4.9	6.0

Source: MA Division of Employment & Training, ES-202

The business services cluster consists of three major groups: business support (which includes advertising, data processing, photocopying, and computer programming, among other services), engineering and management services, and legal services. The cluster accounts for 8.5 percent of employment, up from 8.1 percent in 1997, and wages are well above the area's average. The employment mix in this cluster is beginning to resemble that of the Knowledge Creation export cluster as it adds more high-wage engineering, legal, accounting, and management services jobs.

Travel and Tourism is a growing cluster in the South Shore. Earnings in the cluster are well below average for the area. The South Shore's attractions are still largely secondary destinations primarily supporting day trips. Several initiatives, however, are being taken to improve and expand the area's appeal for tourists. (see figure 7-9)

The Tri-Cities Area

The Tri-Cities Area consists of 22 cities and towns in Bristol and Plymouth Counties, 21 in the "Southeast Region" proper, and is the largest sub-region in Southeastern Massachusetts. It had a population of 473,159, according to the 2000 Census, 9.9 percent more than in 1990. The area's three cities, Brockton (94,304), Taunton (55,976), and Attleboro (42,068), account for 40.7 percent of the area's population.

The Tri-Cities Area is making a successful transition out of traditional manufacturing and into a postindustrial economy anchored by services and high-tech manufacturing. Its economy has benefited from the southward movement of the Boston metropolitan economy and the northeastward movement of the Providence metropolitan economy. The Tri-Cities Area also has

extensive inter-modal transportation linkages and has become a distribution center for the State and Region. It is situated strategically at the intersection of I-495 and Route 24, it has several commuter rail stations and a freight rail interchange, and its three cities are within 30 minutes of major freight airports in Boston and Providence.

As the Tri-Cities Area makes this transition, its unemployment rate has moved steadily downward while its educational attainment and income levels have moved closer to State averages. The cities of Attleboro and Taunton have made noticeable progress in improving educational attainment and income levels and in reducing unemployment.

The Area's economy is still in transition. While manufacturing employment is declining as the area shifts to a service-based economy, manufacturing remains important to towns and cities such as Attleboro and Taunton. Historically, the area's manufacturing base has been concentrated in primary and fabricated metals. However, the metals cluster now accounts for only 1.8 percent of the area's total employment. It has been overtaken recently by a "high technology" cluster, which includes industrial machinery, computer equipment, electronic components, and measuring devices, and accounted for 3.6 percent of employment in 2000 (see figure 7-9). Both manufacturing sectors provide excellent earnings compared to area and statewide averages. While "high tech" has grown slowly in recent years, this cluster contains elements of both the information technology and other manufacturing export clusters which have experienced greater growth in other regions of the State.

However, the service sector is now the fastest growing segment of the Tri-Cities economy. Service-sector growth is led by allied health services and business services, as in the rest of the Southeast Region (see figure 7-9). The expansion in allied health services occurred mainly due to local demand generated by population growth and accounted for 8.6 percent of employment in 2000. The business services cluster has grown from 4.8 to 5.9 percent of area employment between 1997 and 2000. While most jobs in this cluster are concentrated in "low-wage" business support services, such as data processing, photocopying, custodial services, and temporary agencies, there has been a recent surge of employment growth in professional services such as engineering, research, accounting, and management services.

The Tri-Cities Area has also experienced rapid growth of its wholesale and freight distribution sector. The distribution cluster consists of motor freight transportation and warehousing and wholesale trade. The cluster accounted for 9.5 percent of employment in 1997 before declining to 8.5 percent in 2000 (see figure 7-9). Average annual earnings are well above the area and State

average. The Tri-Cities Area is well placed to become a key distribution hub for much of the State and New England. The area's distribution sector has capitalized on the strategic highway, rail, and airport links to several cities, including Boston, Providence, Worcester, Springfield, and New York City. Expansion of the area's numerous industrial/business parks along I-495 has also fueled the distribution sector's recent expansion.

The South Coast Area

The South Coast Area consists of 14 cities and towns in the southernmost part of Bristol and Plymouth Counties. It has a population of 345,610, according to the 2000 U.S. Census, a gain of 1.0 percent since 1990. The area's "twin cities," New Bedford (93,768) and Fall River (91,938), account for 53.7 percent of the area's population. The South Coast is the most economically and culturally-integrated area of Southeastern Massachusetts. Its integration is enhanced by the area's geographic location in the far southern part of the Region, which often isolates the South Coast from the rest of the State. The area's communities are linked together by Interstate I-195, which runs east west through nearly every city and town in the South Coast area.

The South Coast area is quite isolated from the rest of the State. Its highway and rail networks do not provide easy access to the Boston MSA. Nor do they generally facilitate the movement of people or goods to other parts of Southeastern Massachusetts. The South Coast's major highway – I-195 – links the area more closely to the Providence, Rhode Island regional economy. Despite business and housing costs that are well below those found in Boston, the South Coast has capitalized on the State's general prosperity far less than other areas.

Most of the cities and towns in the South Coast area continue to have exceptionally low levels of educational attainment, high dropout rates, above average welfare dependency, and low incomes. Income growth in the South Coast continues to lag statewide trends by considerable margins. Unemployment rates in the New Bedford SDA are still normally at least 50 percent higher than the statewide average. This is the one area of the Region that failed to achieve "full employment" by the end of the last

business cycle in 2000.

The South Coast remains more dependent on manufacturing than most other areas of Southeastern Massachusetts. This is the case even though manufacturing employment declined precipitously, falling from 21.1 to 14.4 percent of total employment between 1997 and 2000 (see figure 7-9 on previous page). About one third of this loss occurred in the low-wage apparel industry. Textiles and apparel are nevertheless still the leading employers in the area's manufacturing sector. However, a small but growing high technology export sector has recently emerged alongside the area's traditional manufacturing industries. These firms are concentrated in electronics, medical devices, and marine instrumentation. They pay relatively high wages and accounted for 3.0 percent of area employment in 2000 (see figure 7-9).

However, only the service sector showed significant employment growth over the last few years. As elsewhere in the Region, its expansion has been led by allied health services and business services. The expansion of allied health services in the South Coast has been especially dependent on the availability of Medicare and Medicaid reimbursements for services to elderly and low-income residents¹¹ which accounted for 13.5 percent of area employment in 2000 (see figure 7-9).

Business services accounted for 4.1 percent of area total employment in 2000. Most jobs in the cluster, however, are concentrated in "low-wage" business support services, where earnings are low and have been stagnant or declining during much of the State's current economic recovery.

The South Coast area has also experienced significant employment growth in its wholesale and freight distribution sector. The South Coast benefits partly from location, but mainly from lower costs and labor availability, which make it an increasingly attractive site for warehousing and distribution. The cluster has grown from 4.9 percent of area jobs in 1997 to 6.0 percent in 2000 (see figure 7-9).

¹¹ Howard Altschiller, "Second Medicare HMO Dropped in SouthCoast," *New Bedford Standard-Times*, October 1, 1999, p. A1.

¹² Data on race must be used with caution. Please see the Introduction to Part II.

Demographics

Population

The Southeast Region had a population of 894,199 in 2000, a 6.6 percent gain over 1990 compared to a 5.5 percent increase for the State. (see figure 7-10)

Resident Age Distribution

The age distribution of the Region's residents is also quite similar to that of the State, with 62.8 percent between 19 to 64 years of age (see figure 7-10). Its population is aging, with the median age rising from 33.5 to 36.6. Assuming an actual average retirement age of 65, approximately 30 percent of the its workforce will retire over the next 20 years, 12 percent over the next 10 years, and 5 percent over the next five years.

The residents of Southeastern Massachusetts are 88.7 percent white, a decline from 93.8 percent in 1990. Blacks are the largest ethnic minority, at 3.7 percent of the population, followed by Hispanics (3.4 percent) and Asians (1.2 percent)¹² (see figure 7-10). Hispanics are the fastest-growing ethnic group in every area of the Southeast Region. While Hispanic immigrants are now arriving from many parts of Latin America, growth is driven largely by immigration from Puerto Rico and the Dominican Republic.

Housing

Home ownership fell slightly during the 1990s, with owner-occupied units decreasing from 63.3 to 61.8 percent. The Region's home ownership rate remained higher than for the State as a whole, however, and the gap actually widened over the decade (see figure 7-11 and 7-12 on next page). A contributing factor was an average price of housing across the Region of \$150,545 in 2000, only 73 percent of the statewide average of \$205,312. (see figure 7-13). Within the Region, prices vary with higher prices in those

communities closer to Boston and along the coast. Much lower housing prices can be found in larger cities like Brockton, Fall River, and New Bedford. (see figure 7-11, 7-12 and 7-13)

Regional Strengths and Competitive Advantages

The Southeast Region enjoys important economic advantages that make it an attractive location for businesses in the current economy. It is well-positioned to accommodate future growth, as compared to the neighboring congestion of the Boston and Providence regional economies. The Region's particular advantages include its:

Workforce. A significant regional asset is the availability of a loyal workforce with a strong work ethic. It is universally acknowledged that its workforce is highly-motivated, an important characteristic for many industries.

Transportation infrastructure. The Southeast Region is near the major cities of Boston and Providence. Its highway network provides easy access to New York City, to two major airports – in Boston and Warwick, RI, and to the Ports of Boston and Providence. The Region's highway transportation network is adequate to support continued economic development within each of its major sub-regions.

Low business costs. The cost of doing business in the Southeast Region is lower than in most other areas of the Northeast. These costs also compare favorably to highly-developed parts of Northern Europe and Japan. The Region maintains lower costs primarily because wages and real estate costs are lower than in other parts of the State. Commercial electric utility costs and water and sewer rates are also below average thought much of the Region.

Educational resources. The Region benefits from the presence of several institutions of higher education. The institutions enroll more than 32,000 students each year and confer about 220 master's degrees, 3,000 baccalaureate degrees, 2,200 associate degrees, and 35 Juris Doctorate degrees. Approximately 80 percent of the graduates remain in Massachusetts. The Region's higher education institutions contribute in important ways to regional competitiveness by producing skilled professional and technical employees, transferring technology to local companies, and sponsoring cultural events that enhance its quality of life.

The Region has been a major financial beneficiary of the Massachusetts Education Reform Act of 1993. State aid per pupil (K-12) has since increased by \$3,150 in Brockton, \$2,564 in Fall River, and \$2,753 in New Bedford. In FY 1999, expenditures per pupil were \$6,836 in Brockton, \$7,282 in Fall River, and \$6,767 in New Bedford, compared to \$6,978 for the State. To the extent that

figure 7-10
Southeast Region Demographic Summary

	Southeast Region			MA		
	1990	2000	change	1990	2000	change
Total population	838,579	894,199	6.6%	6,016,425	6,349,097	5.5%
Age (share of total)						
Under 18	25.1%	25.2%	0.1%	22.5%	23.6%	1.1%
19-24	10.7%	8.3%	-2.4%	11.8%	9.1%	-2.7%
25 to 44	32.3%	30.6%	-1.7%	33.6%	31.3%	-2.2%
45 to 64	18.4%	22.5%	4.2%	18.5%	22.4%	3.8%
65 and over	13.5%	13.3%	-0.2%	13.6%	13.5%	-0.1%
Race/Ethnicity (share of total)						
White	93.8%	88.7%	-5.1%	89.8%	84.5%	-5.3%
Black	3.0%	3.7%	0.8%	5.0%	5.4%	0.4%
Asian	0.9%	1.2%	0.3%	2.4%	3.8%	1.4%
Other race	2.3%	3.7%	1.4%	2.8%	4.0%	1.2%
Two or more races*	na	2.7%	na	na	2.3%	na
Hispanic (of any race)	2.7%	3.4%	0.7%	4.8%	6.8%	2.0%

* the category of persons with two or more races did not exist in the 1990 Census

Source: U.S. Bureau of the Census, Decennial Population Census

funding deficiencies have impeded student performance in its urban school districts, one can reasonably expect significant performance gains in coming years.

Land availability. In 1995, the Region had 21 major industrial parks with a mixture of about 6,000 acres of “developed and developable” land. This land remains available as new parks open and existing ones bring new land and buildings into readiness. The State’s brownfields legislation is having a noticeable impact in places like Fall River, where older mills and other industrial sites are being redeveloped for new uses.

Quality of life. Despite rapid population growth, the Region has managed to protect large swaths of its natural environment. It also maintains a low cost of living, a low crime rate, ethnic traditions, and a location that affords its residents easy access to several major cities and other attractions. The majority of its suburban schools perform above the State average on the Massachusetts Comprehensive Assessment System test and above the national average on the Scholastic Aptitude Test (SAT). The Education Reform Act of 1993, which requires specific funding levels for all school districts, is also helping many previously under-funded school districts raise the level of educational achievement.

Challenges to Future Growth

The Region faces significant challenges to future growth, particularly in its efforts to expand employment and incomes and achieve educational parity with the State as a whole.

Education and the skills gap. It is generally accepted that two-thirds of new jobs in the United States require some level of post-secondary education. Approximately one-third require at least a baccalaureate degree while another third require a two-year associate’s degree or certification by a technical-vocational institute. The most important aspect of skill-based technological change has been the rapid integration of computing technology into virtually every workplace.

The Southeast region's workforce is praised for its motivation and loyalty; however, much of the workforce still consists of unskilled workers with low levels of formal education. The Region’s major challenge is to help its workforce obtain new skills and achieve higher levels of education.

The Region’s employers have become increasingly concerned about labor shortages, particularly in professional and technical occupations. This shortage is largely due to a mismatch between workforce skills/educational attainment and the demands of new-economy jobs. State-sponsored educational reform and workforce

figure 7-11
Southeast Region Housing Supply

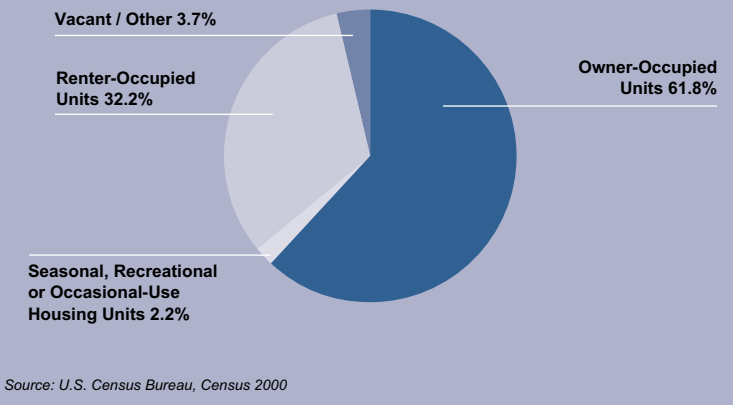
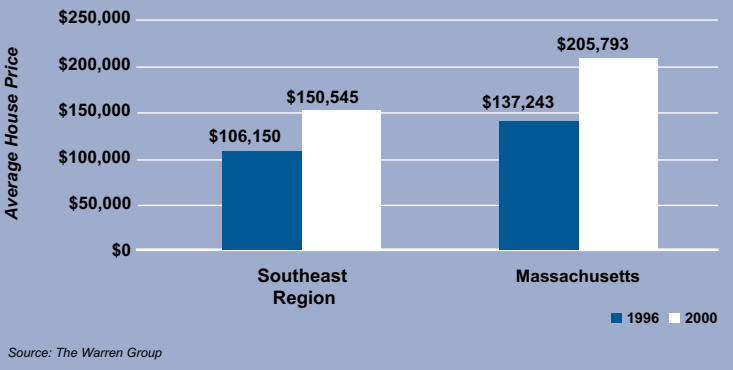


figure 7-12
Southeast Region Home Ownership

	1990	2000	Change
Southeast Region	63.3%	61.8%	-1.4%
Massachusetts	59.5%	57.5%	-2.0%
% Over/Under State	3.8%	4.3%	0.5%

Source: U.S. Census Bureau, Census 2000

figure 7-13
Southeast Region Average Housing Prices



development initiatives are crucial to the region’s continuing effort to develop a workforce capable of meeting future employment needs.

At the same time, many college and university graduates leave because there are not enough jobs available that match their skills and aspirations. A significant challenge is to find avenues for educated residents to apply their knowledge and skills in the local area, to meet the needs of area employers for educated workers, and to seed further business growth.

Transportation infrastructure. Each sub-region in Southeast Massachusetts has emerged around a major highway artery. The Region’s transportation network, however, has not facilitated integrated economic development. The road system ties the South Shore to Boston and connects the Tri-Cities Area to Providence and Boston, but from different directions. The South Coast transportation infrastructure, in particular, has major deficits that must be addressed in the coming decade. The expansion of New Bedford’s regional Airport, the extension of commuter rail service from Boston to New Bedford and Fall River, and improvements to the New Bedford and Fall River seaports will better link these cities with the Boston area and provide access to national and global markets.

Municipal infrastructure. Water and sewer lines in many of the Region’s cities are nearly 100 years old and need to be replaced or repaired. Recent improvements in Fall River and New Bedford are increasing water and sewer rates significantly, lessening a competitive advantage in local utility rates. Solid waste disposal is becoming a major problem for many municipalities and is likely to remain so for the foreseeable future.

Areas of economic distress. The Southeast Region’s economy is improving on the whole, but the South Coast Area continues to lag the State and experienced declines in real income in most of its

critical industries. Property values are also lower than in other parts of the Region, especially in the New Bedford-Fall River area, and local governments operate with severe budget constraints that render them highly dependent on State aid.

Regional Policy Priorities

Economic expansion in the Southeast Region has been driven primarily by local population growth. A workforce with below-average educational attainment has been its principal constraint to growth. The Region’s land use patterns, unemployment rates, and incomes point to continuing structural problems in the regional economy. These underlying structural problems must be addressed before efforts to attract or retain businesses can be successful.

Education. If the Region is to adapt to a changed economy it must improve its educational systems. Central to this mission are standards-based strategies, efforts to increase high school retention, initiatives for improving the literacy and basic skills of incumbent and potential workers, and additional funding for workforce training linked to economic development and business needs.

Infrastructure improvement. As indicated above, the Region is in serious need of municipal and transportation improvements. Projects should proceed that build on its current strengths and promote development in the agriculture, fishing, aquaculture, distribution, travel and tourism, and textiles. Once such infrastructure investments are in place, the Region needs to aggressively market these new opportunities.

Balanced and sustainable growth. In October 2000, the Vision 2020 Task Force asked the Region’s communities to join a “New Mayflower Compact” that commits them to a set of forward-looking land use and economic development strategies. Forty communities signed the New Mayflower Compact, which includes several detailed recommendations for achieving balanced and sustainable growth.¹³ Executing that program is a high priority for the Region.

Improved business climate. While the business climate in the Southeast Region has improved over the past decade, there is still a need to promote innovation and entrepreneurship.

Linking the Region’s Policy Priorities to Potential Solutions

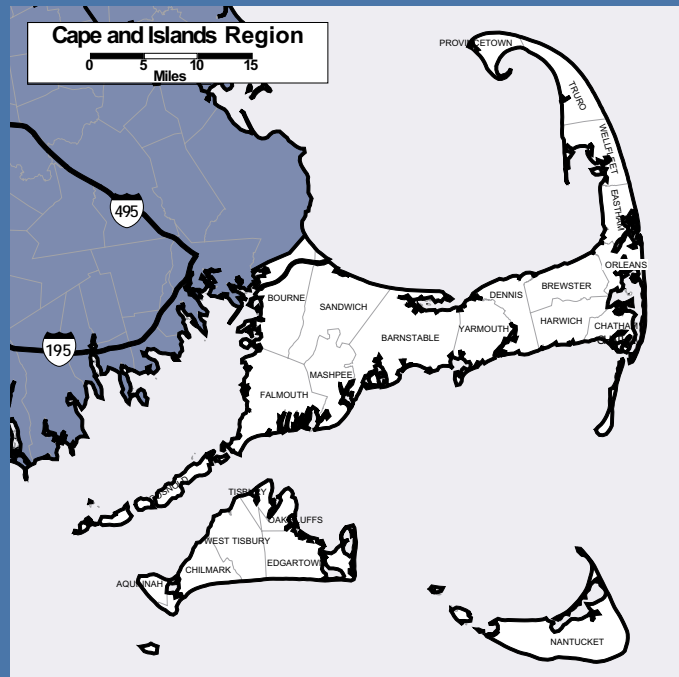
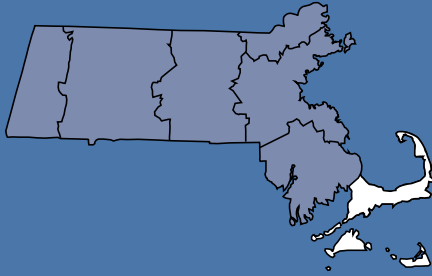
Part III provides a variety of policy options that can help address the Region’s economic development priorities. Figure 7-11 shows where to find relevant options.

13 For details on the Mayflower Compact’s recommendations, see <http://www.semassachusetts.org/compact.htm>.

figure 7-14
Policy Options for Regional Priorities: Southeast Region

Policy Priority	Policy Options, Under Desired Outcomes in Part III
Education	See "Our firms have the talent they need to succeed," pg. 123.
Infrastructure improvement	See "Access to affordable, competitive broadband options throughout the Commonwealth," pg. 126.
Balanced & sustainable growth	See "Massachusetts is a leader in implementing development strategies that preserve a high quality of life," pg. 128. See "Massachusetts implements housing affordability solutions to support growing businesses and their employees," pg. 129.
Improved business climate	See "Strong export industry clusters throughout Massachusetts," pg. 118. See "Firms in our export industry clusters continually innovate to meet high-value customer needs," pg. 118. See "A statewide climate where entrepreneurs flourish," pg. 120. See "Reduced disparities in entrepreneurial opportunities," pg. 120. See "A strengthened technological innovation infrastructure," pg. 121.

cape and islands region



The Cape and Islands Region extends south and east into the Atlantic Ocean from the southeastern-most point of the Commonwealth. The landscape and economy of the long hooked Cape and its companion islands have always been dominated by the sea. Fishing, whaling, water borne trade, and a bit of agriculture were once the foundation of this region's economy. Today, it's the recreational, aesthetic, and naturalistic appeal of the sea – and the unique access the Cape and Islands provides to millions of tourists, retirees and part-time and full-year residents who earn their income elsewhere – that drives its rapid growth.

The Cape Cod and Islands Region consists of 23 towns in Barnstable (Cape Cod), Dukes (Martha's Vineyard), and Nantucket Counties. It occupies 551 square miles and has a population of 246,737. Barnstable County accounts for approximately 90 percent of the total population, employment, personal income, and 72 percent of its landmass. The islands of Martha's Vineyard and Nantucket lie in Nantucket Sound to the south, at roughly seven miles and thirty miles offshore, respectively.

The Cape and Islands Region is accessible by road via the Sagamore (Route 3) and Bourne (Route 25) bridges. Routes 3, I-495, and I-195 all converge near the upper Cape and provide quick access to destinations west and north. Auto and passenger ferry service to Martha's Vineyard and Nantucket is offered from Falmouth and Hyannis on the Cape. Passenger ferry service between Boston and Provincetown operates during the summer months, and between Martha's Vineyard and New Bedford from

May through September. The Region is also served by air and bus transportation.

Economic Overview

Since 1990, the Cape Cod and Islands has been the fastest-growing region in Massachusetts, as measured by the growth of its population, workforce, and total employment. More than half of its economic base depends on tourism, retirees, second-home owners, and Cape and Islands residents working in other parts of the State.¹ An estimated six million tourists visit Cape Cod each year, with nearly two-thirds of all visitors arriving in the summer and early fall. The Region's economy is also highly volatile because it depends on factors such as the weather and economic conditions in regions that supply its tourist trade.

Cape Cod has made more significant strides than the Islands in diversifying its economy, though tourism continues to be the economic engine for Barnstable County. Diversification on Martha's Vineyard and Nantucket is more problematic because of their isolation from the Cape and other areas of the State. It is likely that tourists, seasonal residents, and retirees will continue to be the primary economic supports for all three counties.

Employment

The number of residents employed increased from 99,744 to 113,552 during the economic expansion between 1993 and 1999, an increase of 13.8 percent² (see figure 8-1).

The number of jobs in the Region grew faster, rising 24.5 percent – nearly twice the statewide pace – from 78,792 in 1993 to 98,098 in 1999. Employment increased most sharply on the tourism-focused Islands of Martha's Vineyard (38.2 percent) and Nantucket (36.4 percent) than on the more diversified Cape (22.8 percent).

Unemployment has been higher in the Region than in the State throughout this business cycle. However, the gap declined steadily during the 1990s and jobless rates are now falling into line with statewide trends. The average regional rate in May 2001 was 3.9 percent, compared to the statewide average of 3.4 percent (see figure 8-2). Unemployment remains highly seasonal, based on the resort industry's employment needs. For example, the rate was 2.1 percent in July of 2000, below the Commonwealth's 2.8 percent, and 6.9 percent in January 2001, more than twice the statewide average of 3.1 percent.

Income

Average annual real wages⁴ in the Region were \$29,631 in 1999, 37 percent below the statewide average of \$40,355 (see figure 8-3). The resort industry has a significant impact on annual wage levels, with earnings below statewide averages due to seasonal unemployment and the large number of jobs in low-wage service occupations. While average annual wages in tourism-oriented Martha's Vineyard were below the regional average, at \$27,072, they were higher on Nantucket, at \$32,130.

Wage data alone convey an overly pessimistic picture of residents' economic situation. Much of the seasonal volatility and low-wage jobs are filled by students and temporary foreign workers, who migrate to the Cape and Islands during the resort season, specifically for temporary employment. Many seasonal jobs are also held by moonlighters, homemakers, and retirees, who supplement family income by working only during the resort season.

For year-round residents, total personal income (from all sources) compares favorably to the figures for the State as a whole. Per capita personal income for the Cape and Islands is \$34,932, 98 percent of the statewide average of \$35,527. Per capita income is significantly higher on Nantucket, at \$46,354.

¹Clyde Barrow. "Cape Cod and the Islands: More than a Resort Economy", *Massachusetts Benchmarks* (Summer 2001).

² The data in this section on the number of people employed, in the labor force, and unemployed are taken from the household survey. They will not match the employer-based data used in other sections that report the number of payroll jobs.

³ Employment is measured here using the Bureau of Labor Statistics, ES-202 series, which are employer reports of payroll jobs rather than household-based measures of employed or unemployed people. As a result, the numbers will differ from employment figures based on the household survey presented in other sections of the document.

⁴ The U.S. consumer price index (CPI) was used to adjust nominal wages for the effects of inflation.

figure 8-1

Cape and Islands Region Labor Force and Employment

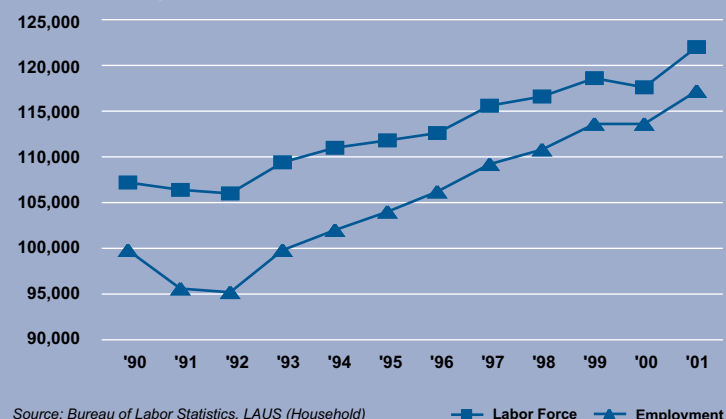


figure 8-2

Cape and Islands Region Unemployment Rate

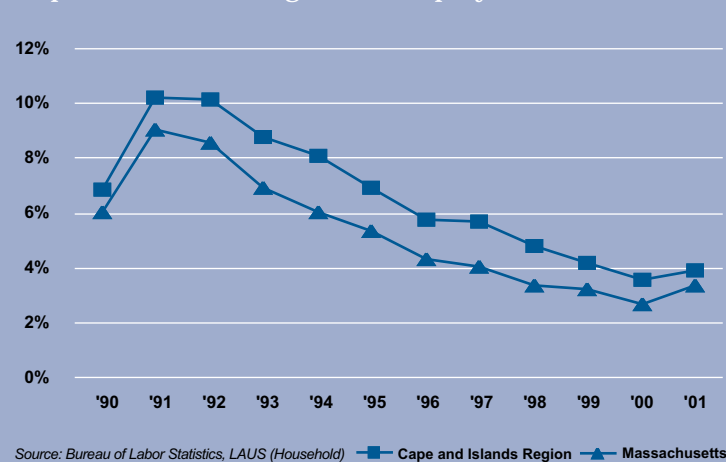


figure 8-3

Cape and Islands Region Average Real Wages

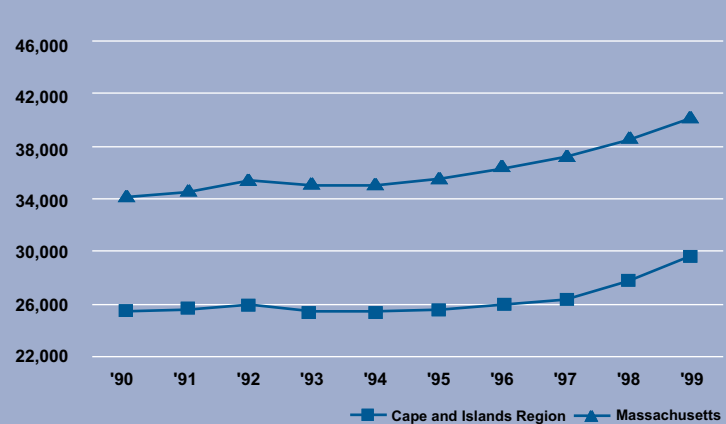


figure 8-4

Cape and Islands Region Employment by Major Industry

	1993	2000	Percent of 2000 Total	Change 93-00
Agriculture, Forestry, Fishing, and Mining	1,207	2,058	2.2	70.5%
Construction	3,538	5,981	6.4	69.1%
Manufacturing	3,167	3,550	3.8	12.1%
Transportation and Public Utilities	4,287	4,895	5.2	14.2%
Wholesale Trade	1,645	2,581	2.7	56.9%
Retail Trade	22,292	28,207	30.0	26.5%
Finance, Insurance, and Real Estate	3,855	4,490	4.8	16.5%
Services	27,789	36,753	39.1	32.3%
Government	3,824	5,470	5.8	43.0%
Total	71,604	93,985	100.0	31.3%

Source: Division of Employment and Training, ES-202

Employment by Major Industry Sector

The three largest employers in the Region are services, retail trade, and construction. During the expansion from 1993 to 2000, job growth in agriculture, construction, and government was significantly stronger than in other industries (see figure 8-4).

Figure 8-5 lists the Regions largest industries, in terms of employment. Most of these industries are in the service and retail trade sectors of the economy.

The Cape and Islands Region Export Sector

As explained in Chapter 2, a healthy export sector is critical to a region's economic success. The sidebar in that Chapter on "The Massachusetts Export Sector" presented six large industry clusters as the key components of the Commonwealth's export sector. These clusters were identified in earlier State policy documents and studies, specifically *Choosing to Compete*⁵ and the more recent *Knowledge Sector Powerhouse*⁶. They include four Knowledge-based clusters – Information Technology, Health Care, Financial Services, and Knowledge Creation. They also include two clusters that are less knowledge intensive: Travel and Tourism, and "Traditional Manufacturing," manufacturing industries, such as paper, plastics and rubber, metalworking, and machinery, that are not part of the Information Technology or Health Care clusters. The discussion below uses this framework to explore the Cape & Islands Region's export sector.

Figure 8-6 shows export cluster growth in the Region, as compared to Massachusetts. When interpreting the results of our analysis, please note that the employment figures reported for these large industry clusters are not meant to represent export sector jobs. The Health Care cluster, for example, includes physicians serving the local population. A finer picture of the composition of the Region's export sector, and the extent to which it has become part of the wider knowledge-based economy, is developed in the discussions that follow.

In 2000, the four knowledge-intensive export clusters (Knowledge Creation, Information Technology, Health Care, and Financial Services) accounted for less than 25% of the total employment in the Cape and Islands.

Critical Industries of the Cape & Islands Region

A review of five critical industries provides a more comprehensive analysis of the Region's economy. These industries shown in figure 8-7, account for large shares of the Region's employment and wages.

figure 8-5

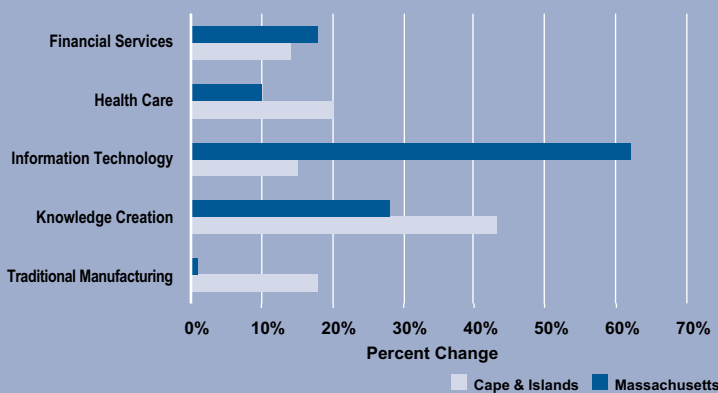
Cape and Islands Top 5 Industries, by Employment

Sector	1993	Persons	Sector	2000	Persons
Health Services		8,518	Eating and Drinking Places		10,470
Eating and Drinking Places		6,203	Health Services		10,161
Educational Services		8,168	Educational Services		8,042
Food Stores		2,078	Miscellaneous Retail		4,988
Miscellaneous Retail		1,864	Food Stores		4,826

Source: MA Division of Employment and Training

figure 8-6

Employment Change in the Commonwealth's Export Clusters: Cape and Islands Region, 1993 to 2000



Source: Forrant et al., "Knowledge Sector Powerhouse." University of Massachusetts Donahue Institute. 2001.

The Resort Industry Cluster

The Resort Industry Cluster is by far the largest component of the Region's export base. An estimated six million visitors come to the Cape and Islands each year – largely from Massachusetts, New England, and Mid-Atlantic states – and they spend nearly \$1 billion annually.⁷ While the Region's year-round economy has grown significantly over the last decade, the resort industry remains highly seasonal. Room demand on the Cape alone declines by 50,000 to 100,000 rooms per month from the peak summer months to the industry's winter trough. The industry is also highly sensitive to factors such as weather and the economic condition of other regions and states that fuel its tourist trade.⁸

The resort industry is defined as including eight major industry groups: general merchandise stores, food stores, apparel and accessories, eating and drinking places, miscellaneous retail, hotels and other lodging places, amusement and recreation services, and museums.⁹ The cluster accounted for 21.0 percent of regional employment or 21,297 jobs in 2000. Adding effect of indirect and induced impacts, the resort industry generated approximately 40 percent of its total employment. While employment grew 12 percent over the expansion years since 1993, its overall share of employment declined from 24.2 percent. While this decline highlights growing diversification, the resort industry is expected to remain at the core of the Cape and Islands economy. The activities that showed significant net gains over this period were amusement and recreation services (+41.0 percent or 557 jobs) and miscellaneous retail (+29.1 percent or 844 jobs).

The average annual wage in the Cluster is \$18,793, significantly lower than the regional average of \$29,631. Real wages, nevertheless, increased by 17.7 percent between 1993 and 2000.

Construction

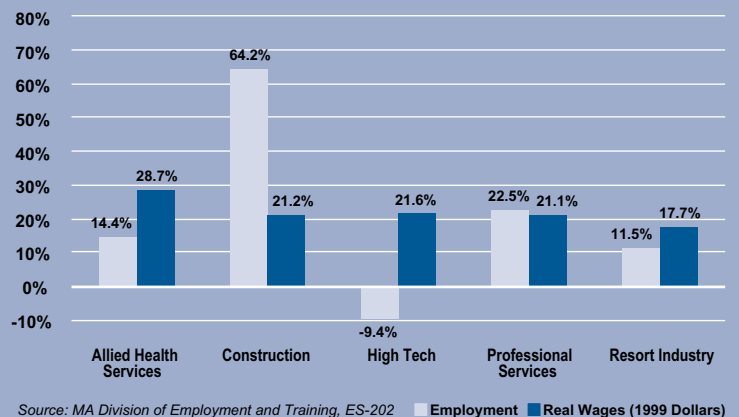
The construction industry¹⁰ accounted for 7.2 percent of jobs in 2000, an increase from 64.2 percent at the beginning of the expansion in 1993. The industry is cyclical with employment growth highly sensitive to the overall health of the economy. It is not clear what share of recent employment gains is cyclical as opposed to permanent, long-term growth. There is also a question of whether construction will remain a critical industry as the Cape and Islands Region reaches its "build-out" limit (see figure 8.7).

High Technology

The high technology cluster consists of five major industry groups: industrial and commercial machinery (including computers), electronic and other electrical equipment, measuring and analyzing equipment, communications, and drugs. The cluster accounted for nearly 2,000 jobs in 1993, 2.5 percent of the region's total. But high tech manufacturing shed jobs throughout

figure 8-7

Cape and Islands Region: Employment and Real Wage Change in Critical Industries, 1993 to 2000



the nation in the 1990s, and this was also the case in the Region. Employment fell by 9.4 percent and the cluster's share of the region's total decreased to 1.7 percent (see figure 8-7). Many of the jobs are concentrated in a small number of firms, with communications accounting for more than 40 percent of the total.

Average annual wages in the industry are well above the regional and State averages at \$46,475 in 2000 and increased, after inflation, 21.1 percent over the 1993-2000 expansion.

Professional Services

Professional services consists of five major groups: legal services, engineering, accounting, research, management, advertising, computer programming and data processing, and educational services. This cluster accounted for 11.9 percent of the Region's employment in 2000, a decrease from 12.5 percent in 1993. Total employment in the industry increased 22.5 percent between 1993 and 2000 (see figure 8-7 on previous page). Employment gains are being fueled by engineering, accounting, and research (+817 jobs)

⁵ Massachusetts Executive Office of Economic Affairs and the University of Massachusetts, (Boston, 1993).

⁶ Robert Forrant, Philip Moss, and Chris Tilly, (Boston: UMass Donahue Institute, 2001).

⁷ ArtsMarket Consulting, Inc., *Tourism Market Study Analysis: Visitors to Cape Cod* (Barnstable, Mass.: Cape Cod Chamber of Commerce and Cape Cod Times, 1995); Commonwealth of Massachusetts, *Convention and Public Assembly Facilities Market and Feasibility Study: Cape Cod Region* (Boston: Executive Office of Administration and Finance, 1998).

⁸ Hunter Interests, Inc., *Economic Analysis: Cape Cod Tourism Expansion Strategy*. Barnstable, Mass.: Cape Cod Economic Development Council, 1996.

⁹ In calculating the direct economic impacts of the resort industry, it is estimated that 35 percent of total annual average employment in general merchandise, apparel and accessories, and food stores is tourist-related based on summer sales figures shared with the principal investigators. It is estimated that 75 percent of total annual average employment in miscellaneous retail and eating and drinking establishments is tourist-related. It is estimated that 100 percent of total annual average employment in amusement and recreation, museums, and lodging establishments is tourist-related.

¹⁰ The construction industry consists of general building contractors, heavy construction, special trade contractors.

and computer programming (+262 jobs). The engineering, accounting, research and management consulting industry accounts for the highest level of employment (3,139), followed by educational services (972), computer programming (767), legal services (653), and advertising (87).

Average annual wages in professional services are \$38,527, which is 21.1 percent higher than inflation-adjusted pay in 1993.

Health Services

Health services¹¹ account for 10.0 percent of jobs, a decline from 11.3 percent in 1993. The average annual wage is \$38,540, which is higher than the Region's annual average wage of \$29,631. This compares to an annual average wage of \$26,293 in 1993. Real wages have increased by 28.7 percent over this period. Population growth, particularly among retirees, and the availability of Medicare and Medicaid reimbursements for services to the elderly and low-income residents have supported growth in this industry during much of the 1990s. However, government cutbacks in reimbursements and fee caps, as well as cost controls implemented by HMO's, hospitals, and nursing homes are now constraining employment and wage growth in this industry.

Demographics

Population

The Region has a population of 246,737. This reflects a 20.8 percent increase during the 1990s, the largest gain in the Commonwealth. Retirees and commuters to the South Shore and Boston fueled much of this growth, which is placing increasing pressure on its existing infrastructure and environment. Nantucket had the highest rate of population growth (58.3 percent), followed by Martha's Vineyard (28.8 percent), and Barnstable County (19.1 percent).

Resident Age Distribution

As the Region is home to a large number of retirees, the median age of the region's residents (44.3 years) is the highest in the Commonwealth and significantly higher than the median age in the State (36.6 years). The percentage of Cape and Islands residents who are aged 19 to 64, the years when most people are in the full-time workforce, is 57.4 percent. This compares to a statewide average of 62.8 percent (see figure 8-8).

More than 90 percent of Cape and Islands residents are White. This compares to 84.5 percent statewide. At 5,117, Black residents represent largest ethnic minority in the Region.¹²

The Region has a more educated population than the State as a whole. This may be attributed to its large retirement community. Nearly 90 percent of all Cape and Islands residents have high school diplomas, compared to 80 percent for the State. Cape and Islands residents are slightly more likely to have bachelor's degrees or higher – 28.4 percent versus 27.2 percent statewide.

Housing

The supply of moderately-priced housing for year-round Cape and Islands residents and seasonal workers is shrinking. The average home price for the Region in 2000 was \$208,771, compared to \$205,312 for the State (see figure 8-9). This represents an increase of 68.3 percent since 1996, compared to a 47.7 percent gain for the Commonwealth. The average home price is 36.9 percent below the Boston average (\$281,051).

The Cape and Islands Region continues to attract an influx of comparatively affluent commuters to Falmouth, Sandwich, and Mashpee. This demand serves to drive up prices and create serious affordability issues for many long-term residents who work on the Cape. A similar dynamic is at work on the Islands, as seasonal residents purchase summer and retirement homes.

The percentage of owner-occupied homes has decreased significantly in the past decade. In 1990, 71.9 percent of homes were owner-occupied. This fell to 47.2 percent in 2000, as high rental income encouraged homeowners to rent, rather than occupy, their homes (see figure 8-10). New construction of seasonal second homes is also on the rise.

More than one-third of the Cape's housing is for seasonal, recreational, or occasional use (see figure 8-11). This demand leaves a relatively smaller share of the Region's housing stock available to year-round residents.

figure 8-8

Cape & Islands Region Demographic Summary

	Cape & Islands			MA		
	1990	2000	Change	1990	2000	Change
Total population	204,256	246,737	20.8%	6,016,425	6,349,097	5.5%
Age (share of total)						
Under 18	21.1%	20.5%	-0.6%	22.5%	23.6%	1.1%
19-24	7.4%	5.3%	-2.0%	11.8%	9.1%	-2.7%
25 to 44	30.2%	25.9%	-4.3%	33.6%	31.3%	-2.2%
45 to 64	19.9%	26.2%	6.3%	18.5%	22.4%	3.8%
65 and over	21.4%	22.1%	0.6%	13.6%	13.5%	-0.1%
Race/Ethnicity (share of total)						
White	96.1%	93.8%	-2.3%	89.8%	84.5%	-5.3%
Black	1.6%	2.1%	0.5%	5.0%	5.4%	0.4%
Asian	0.5%	0.6%	0.1%	2.4%	3.8%	1.4%
Other race	1.8%	1.8%	0.0%	2.8%	4.0%	1.2%
Two or more races*	na	1.8%	na	na	2.3%	na
Hispanic (of any race)	1.2%	1.4%	0.2%	4.8%	6.8%	2.0%

* = The category of persons with two or more races did not exist in the 1990 Census.

Source: Census Bureau, Census 2002

Regional Strengths and Competitive Advantages

The Cape and Islands Region has many strengths and competitive advantages, including an attractive quality of life, focused land use and economic development planning, high educational attainment levels, and skilled retirees.

Quality of life. The Region's natural environment, quality school systems, low crime rate, climate, and location afford its residents a high quality of life. Its ecosystem, defined by pristine beaches, beautiful oceans and bays, quaint villages, and a diverse mix of plant and animal life, is fragile. While geography makes it relatively remote, it is still close to major population centers.

Environmental factors are key to attracting tourists and retirees. A location on the water also presents opportunities for expanding research in aquaculture, environmental science, marine science, and sport fishing. For example, the Woods Hole Oceanographic Institute is the largest independent ocean-ographic institute in the world. Aquaculture is also a burgeoning industry, although success has been hampered by local environmental regulations.

Land use and economic development planning. The Cape and Islands is the only Region in the State with regional planning agencies exercising genuine controls over land use and development. The Cape Cod Commission and the Martha's Vineyard Commission were created to ensure a balance between sustainable economic development and the environment. To preserve its quality of life for residents and tourists, the preservation of historical and natural attractiveness dominates land use and economic development planning.

Educational attainment. The Region's relatively high level of educational attainment provides an opportunity to develop emerging industries in high-technology areas such as marine technology, software engineering, and environmental technology. Economic development plans emphasize a balance of economic redevelopment, historic preservation, and environmental conservation.¹³ As a result, economic development officers are seeking "light-clean" industries, such as high technology, professional services, and communications firms.

Skilled retirees. Retirees make up roughly one-fourth of the Cape and Islands population, a proportion which increases each year. It is estimated that this group of year-round and seasonal residents now comprise 11.9 percent of the Cape's seasonal workforce.¹⁴ Many of

¹³Health services include hospitals, nursing homes, home care providers, health maintenance organizations, medical laboratories, rehabilitation facilities, group medical practices, and individual practitioners.

¹⁴Data on race and ethnicity must be used with caution. Please see the Introduction to Part II.

figure 8-9

Cape & Islands Region Average House Prices

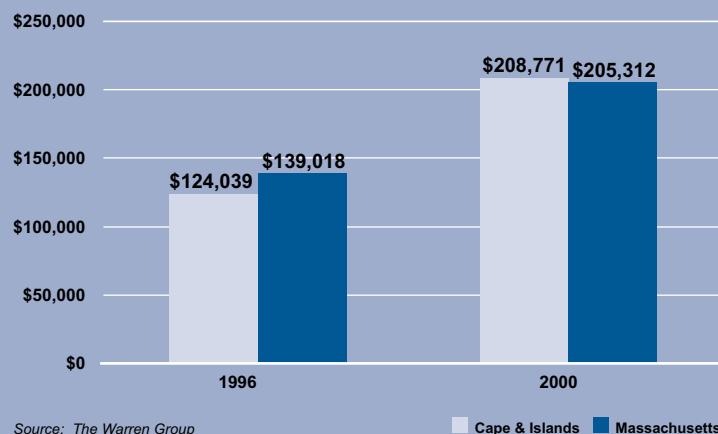


figure 8-10

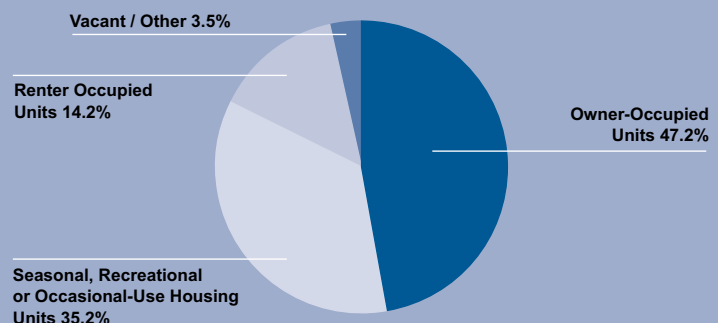
Cape and Islands Region Home Ownership

	1990	2000	Difference
Cape and Islands Region	71.9%	47.2%	-24.7%
Massachusetts	59.5%	57.5%	-2.0%
% Over/Under State	12.4%	-10.4%	-22.7%

Source: Census Bureau, Census 2002

figure 8-11

Cape and Islands Region Housing Supply



these retirees possess skills and experience that can benefit the regional economy, especially in the areas of high-tech and professional services. The key is for the Region to develop strategies that take full advantage of the workforce skills of this population.

Educational institutions. The Region benefits from having a two-year community college and the specialized programs at the Massachusetts Maritime Academy and Woods Hole Oceanographic Institute that attract many skilled individuals. Graduates of these programs often establish businesses in the Region.

Challenges to Future Growth

The Region faces several challenges, particularly balancing the environment with economic growth, land availability for business growth, traffic and lack of public transportation, housing affordability, Internet access, and seasonal labor shortages.

Protecting the environment. While tourist and seasonal resident spending is vital to the Cape and Islands economy, the growing number of tourists also threatens its fragile environment. Thus, much regional planning is focused on balancing economic growth with environmental preservation. Economic development planners consequently emphasize the recruitment and development of light-clean industries, such as high-technology firms. These types of industries generally provide high-wage jobs while having less impact on the environment than traditional manufacturing. While tourism will remain the region's economic base, attracting other types of industries will help diversify the economy, making it less susceptible to economic downturns in the tourist industry brought on by bad weather or adverse economic factors.

Land availability. Because much of the region's land is already developed or set aside for open space, agricultural, or other non-developable uses, there is not much land available for business development. The Cape Cod Commission has addressed this issue by introducing the concept of growth activity centers, which encourages intensive development in areas that already have adequate infrastructure and are currently underutilized.

Location and isolation. While the Region's isolation lends to its attraction as a tourist destination, it is a hindrance in attracting other types of businesses. The transportation infrastructure does not facilitate the easy movement of workers and goods within the Region or to off-Cape destinations. The isolation of Martha's Vineyard and Nantucket is even greater, with goods having to be shipped or flown to these destinations.

Transportation infrastructure. With population increases and success in lengthening the "shoulder seasons" in the resort industry,

the Cape's traffic congestion is becoming a year-round problem. About 35 million vehicles cross the Cape Cod Canal annually, a figure that has doubled since 1976.¹⁵ Many of the Region's bridges and roads are in need of repair and eventually will need to be replaced.

The public transportation network on the Cape is neither well-developed nor particularly extensive, which makes it difficult for some workers – especially foreign temporary workers – to get to their jobs.

Housing affordability. As housing costs rise and availability declines, affordable housing is no longer a "low-income" problem. Housing prices are having an impact on wage levels, which drive prices in the tourist industry in an upward spiral.

The Cape's growing reliance on J1 (foreign student) and H2B (foreign temporary) workers has also made housing availability and costs salient to employers. The H2B program and many foreign university work-abroad programs require employers to arrange and guarantee housing for prospective employees and interns. A survey found that 27.2 percent of the Cape's resort industry employers currently provide housing or a housing subsidy for seasonal employees.

Retaining skilled workers. The lack of affordable housing is creating an environment where employers are having difficulty recruiting and retaining employees. Many employees outside the Region are reluctant to fill job vacancies because of high housing costs. College graduates who grew up here would like to return for work, but often cannot afford to do so.

Seasonal labor shortages. There is an acute shortage of unskilled and semi-skilled seasonal workers in the resort industry. During summer and early fall, Cape Cod is reaching or exceeding full employment. However, unlike most other parts of the State, its labor shortage is mainly among unskilled and semi-skilled seasonal workers. While a portion of the labor shortage can be attributed to low unemployment, housing and rental costs are creating major difficulties for employers to recruit seasonal workers.

There are concerns about how the Region can continue to maintain its lengthening tourist season without a steady supply of seasonal workers. This problem is especially acute on the Islands, where rents are very high and housing availability is slim.

Workforce skills, education, and training. As in many areas of the State, workers and potential workers in the Cape and Islands Region suffer from basic skills deficits, especially in the areas of Math and English. This makes it difficult for individuals to compete in the economy and for the region to attract technical and pro-

fessional businesses. While the Region has higher educational attainment levels than the State as a whole, there is a concern that some of its year-round residents do not have the skills to meet the needs of local employers.

Spending increases mandated by the Education Reform Act of 1993 have not kept pace with rising enrollments and costs. While enrollments and mandated spending increases grow, property tax increases are constrained under Proposition 2 1/2. Many communities are in the position of having to provide services to a growing population of students at a time of budget shortfalls. These shortfalls have limited the ability of some school districts to institute or expand needed programs.

Telecommunications infrastructure. Many businesses and organizations need access to advanced communications networks. The Woods Hole Oceanographic Institute and spin-offs in the marine sciences and other high tech industries are critical examples. The Region, however, currently has limited affordable high-speed Internet access.

Wastewater treatment. Cape Cod and the Islands are continually faced with water and sewer infrastructure concerns, as the area experiences rapid growth in environmentally-sensitive areas. These concerns are exacerbated by the fact that the Cape is served by a single-source aquifer. The shallowness of this water source makes it especially vulnerable to contamination. Adding to this risk is the fact that 87 percent of the region's housing uses septic systems. The increasing population density on the Cape is causing septic seepage into water systems, including inland water, bays, and estuaries.

Regional identity. There is a perception that the State does not understand the needs of the Cape and Islands. The Region has not developed an identity that unites the voices of individual communities, focuses the attention of State policymakers, and assures State legislators that in supporting the region they are meeting the needs of a substantial constituency. However, such a strategy must be balanced against the need to maintain the village identities of the Region's communities.

Regional Policy Priorities

Expanding tourism shoulder seasons. The Region has significant excess capacity in off-peak spring and fall shoulder seasons. The Cape Cod Chamber of Commerce is aggressively pursuing initiatives to expand visitation. Initiatives include attempts to attract small conferences and visitors for getaway weekends from nearby metropolitan areas.¹⁶

Transportation infrastructure. The Region must continue current work on the transportation infrastructure and consider expanding that work to areas in which further transportation improvements can significantly aid economic development. The Cape Cod Commission and the Cape Cod Metropolitan Planning Organization recently have begun studying the Region's transportation needs, including bridges. It is clear that transportation improvements or new options will be needed. Additionally, the Region needs to develop an efficient public transportation system to alleviate traffic congestion.

Wastewater treatment. As part of its economic development strategy, the Region is seeking to make zoning changes that will allow for dense urban-area clusters and allow residential housing above commercial buildings. Density can only occur, however, with adequate wastewater treatment facilities. The region needs a strategic solution to wastewater treatment, and it will need financial assistance in building treatment facilities.

Public-private networks. The Cape and Islands economy has long been distinguished from other regions of the State by its reliance on small businesses and proprietorships. Public-private networks that enhance the competitiveness of small businesses are needed. These networks can facilitate access to State resources that allow them to expand and remain here. Many businesses are not aware of the types of assistance that are available from the State.

The State should also encourage the investment of venture capital in the Region and/or establish a privately managed seed venture capital fund to support the development of emerging and entrepreneurial industries. Another way that the State can help smaller businesses is to offer more on-line services to businesses and to promote the development of on-line services at the local level.

Communications infrastructure. Due to environmental concerns, Cape Cod has focused much of its job creation strategy on attracting light, clean industries – exactly the industries that require an advanced information infrastructure. Unfortunately, there is limited access to affordable high-speed Internet services. The Cape Cod Technology Council, the Cape Cod Chamber of Commerce, the Massachusetts Technology Collaborative, and the Cape Cod

¹³Cape Cod Commission, Cape Cod Regional Policy Plan (Barnstable, Mass., 1996); Victor Gautam, "Cape Cod and the Islands: Working Toward a Sustainable Year-Round Economy," Massachusetts Benchmarks (Winter 1999): 19-23.

¹⁴Barrow, Clyde W. and David Borges. Help! Wanted—Cape Cod's Seasonal Workforce. Cape Cod Commission. October 2000.

¹⁵Cape Cod Transit Task Force, 2001

¹⁶Michael J. Gill & Associates 1984; Commonwealth of Massachusetts 1994.

Economic Development Council are beginning to address this need by collaborating to upgrade the Region's telecommunications infrastructure through "Cape Cod Connect."

Expand resources for higher education. There is very little technology transfer occurring in the Cape and Islands Region. The Woods Hole Oceanographic Institute provides specialized training in many emerging fields. Yet beyond the Massachusetts Maritime Academy, there is no four-year college or university in the Region. While it is ripe for development in several high-tech areas, including marine sciences, environmental sciences, and software development, there are very few avenues for enhancing technology-based economic development.

Small businesses rarely have the resources to keep abreast of best-practice methods of production and management, and consequently do not take full advantage of available technologies. The Region lacks a major research university that could help local businesses access these resources.

Workforce development. The Region and the State must continue to work together to provide a career education system that links K-12 education, higher education, and workforce development with employment to achieve a workforce that is prepared for new business challenges. As is the case across the State, many students and workers in the Cape and Islands Region suffer from a basic skills deficiency.

Public schools, especially vocational schools, need to develop programs that address the needs of employers and the entrepreneurial economy. Not all high school graduates will go on to college, and thus it is important to "match" the skills of these graduates with business needs. The skills being taught in the

schools should mirror the needs of the economy.

Finally, worker preparedness is an important issue. This includes getting to work on time, dressing appropriately, and having good interpersonal skills. This is especially important considering the prevalence of the Region's hospitality industry. State agencies, workforce investment boards, institutions of higher education, and businesses must cooperate in creating workforce development programs that meet the needs of both workers and employers. Workforce investment boards must be adequately funded by the State for workforce development efforts to be effective.

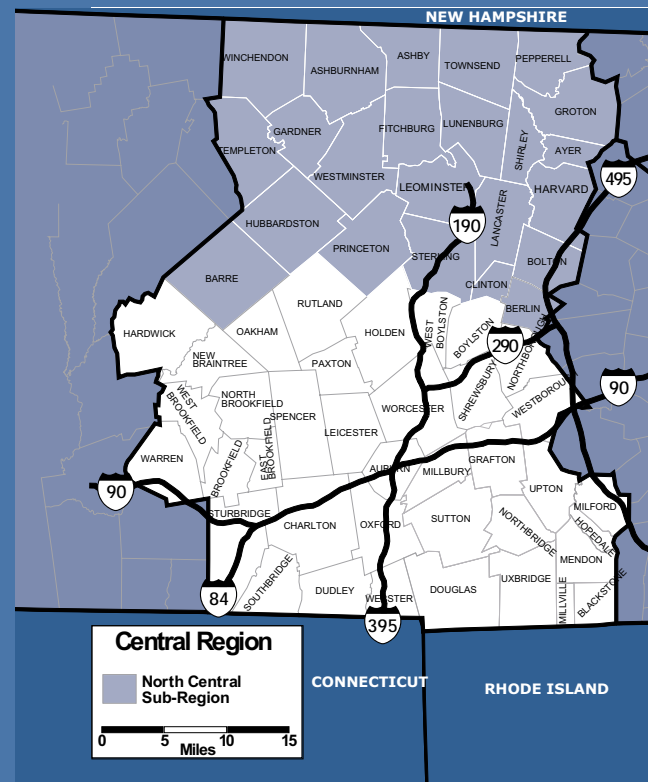
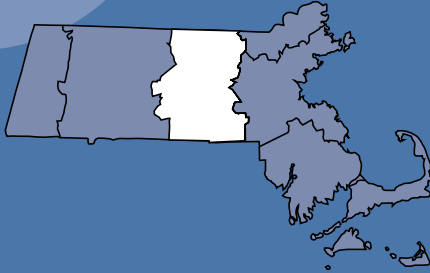
Linking the Regions Policy Priorities to Potential Solutions

Part 3 provides a variety of policy options that can help address the Region's economic development priorities. Figure 8-12 shows where to find relevant options.

figure 8-12
Cape & Islands—Policy Options for Regional Priorities

Policy Priority	Policy Options, Under Desired Outcomes in Part III
Expanding shoulder seasons	See "Strong export industry clusters throughout Massachusetts," pg. 118.
Transportation infrastructure	See "Massachusetts is a leader in implementing development strategies that provide a quality of life," pg. 128.
Wastewater treatment	See "Massachusetts is a leader in implementing development strategies that provide a quality of life," pg. 128.
Public-private networks	See "Massachusetts is a leader in implementing development strategies that provide a quality of life," pg. 128.
Communications infrastructure	See "Access to affordable, competitive broadband options throughout the Commonwealth," pg. 126.
Expanded resources for higher education	See "A strengthened technological innovation infrastructure, pg. 121. See "Worker skills match the needs of business and the competitive environment," pg. 124.
Workforce development	See "Worker skills match the needs of business and the competitive environment," pg. 124. See "Our firms have access to the talent they need to succeed," pg. 123.

central region



Worcester County lies at the center of Massachusetts and it largely defines the Central Region of the Commonwealth. Economic flows here have traditionally run north and south along the Blackstone River Valley – a natural link connecting the city of Worcester to Providence, Rhode Island. The Providence and Worcester Railroad runs through the valley and ties these two urban centers together. So does Route 146, a newly-expanded north-south highway. Both Providence and Worcester have their own airports, with T.F. Green in Providence providing an alternative to Boston's Logan International Airport for domestic flights. The development of new knowledge-based industries over the past decade, however, has enhanced the Region's ties to the east, and especially to the Greater Boston economy.

Central Massachusetts is commonly divided into three distinct sub-regions running from north to south: North- Central ¹, Metro Worcester,² and the Blackstone Valley ³.

- The North-Central has the highest concentration of manufacturing employment in the Region. It is home to a large number of plastics and furniture manufacturers, primarily based in Fitchburg, Leominster, and Gardner. For a description of the sub-region's plastics industry, see Chapter 2.⁴
- At the center of the Region lies Worcester, New England's third largest city. Through the nineteenth century, rivers, then steam powered industrial mills were key to the city's economy.

While manufacturing remains important, the Worcester metro area has become the region's trade and service center. The biotechnology industry has also taken hold, offering a significant opportunity for long-term growth.

- The Blackstone Valley was the initial home of the nation's industrial revolution and the sub-region, like the North Central, retains a significant manufacturing orientation. Route 146, a newly-expanded highway from Worcester and Providence, has already begun to effect development in the sub-region, becoming a significant conduit for travel and trade both within the Region and across state lines.

While data at the sub-regional level of analysis are limited, figure 9-1 indicates the industry structure of the three sub-regions of Central Massachusetts.

There is little evidence of significant economic exchange between Central Massachusetts and regions to the west. The Quabbin Reservoir, the Commonwealth's chief source of drinking water, runs north and south along the Region's western border and blocks development into the Pioneer Valley. On its eastern fringe, however, the I-495 corridor has grown substantially in recent years, bringing companies and people to towns like Westborough and Northborough. The fringe of the Boston economy is now on the doorstep of central Massachusetts, and the Region is feeling the effects of this development.

Economic Overview

Employment⁶

Central Massachusetts enjoyed the same economic boom experienced by the State as a whole over the past decade. In 1991, the worst year of the 1990s recession, unemployment in the Region stood at 9.9 percent, higher than the statewide rate of 9.1 percent. Since then, both the State and the Region have seen joblessness steadily decline. The regional unemployment rate in 2001 was 3.7 percent, a few ticks higher than the statewide rate of 3.4 percent. Joblessness in the North Central sub-region was a bit higher still, at 3.9 percent (see figure 9-2).

The number of people employed in the Central Region in 1991 – the low point in the Commonwealth's recent history – was 334,000. Ten years later, the number had increased to a high of 372,000, an 11.4 percent gain (see figure 9-3). Data for the North-Central sub-region indicate a similar pace of workforce and employment growth. Employment in the State as a whole rose a bit faster, rising 12.4 percent.

Income

Figure 9-4 (on the following page) shows that average real wages rose at a slower pace than the State as a whole. Wage growth in the North Central sub-region lagged further still.⁷ In 1999, the sub-region's average real wage was \$30,807, an increase of 4.5 percent over 1990 levels. During the same period, real average wages for the Region increased 10.3 percent, to \$33,840. In Massachusetts, real average wages increased 17.4 percent, to \$40,127. The Central Region and the North-Central sub-region enjoyed rising real wages during the '90s boom but that growth lagged the rest of the State.

¹ North Central Communities include: Ashburnham, Ashby, Ayer, Barre, Berlin, Bolton, Clinton, Fitchburg, Gardner, Groton, Harvard, Hubbardston, Lancaster, Leominster, Lunenburg, Pepperell, Princeton, Shirley, Sterling, Templeton, Townsend, Westminster and Winchendon.

² Metro Worcester Communities include: Auburn, Boylston, Brookfield, Charlton, Dudley, East Brookfield, Hardwick, Holden, Leicester, Milford, New Braintree, North Brookfield, Northborough, Oakham, Oxford, Paxton, Rutland, Shrewsbury, Southbridge, Spencer, Sturbridge, Warren, Webster, West Boylston, West Brookfield, Westborough and Worcester.

³ Blackstone Valley Communities include: Blackstone, Douglas, Grafton, Hopedale, Mendon, Millbury, Millville, Northbridge, Sutton, Upton and Uxbridge.

⁴ A detailed sub-Regional economic analysis is only possible for the North-Central sub-Region. Public economic data at the sub-Regional level of analysis are limited. This is primarily due to the need to preserve employer confidentiality and because sub-Regional boundaries recognizable by Central Massachusetts residents do not always correspond to sub-Regional employment data tracked by the Massachusetts Division of Employment and Training.

⁵ Ibid.

⁶ The data in this section on the number of people employed, in the labor force, and unemployed are taken from the household survey. They therefore will not match the employer-based data used in other sections that report the number of payroll jobs.

⁷ The U.S. consumer price index (CPI) was used to adjust nominal wages for the effects of inflation.

figure 9-1

Central Region Employment by Major Sub-Division and Sub-region, 1999

	Central Region		North Central		Blackstone Valley		Metro Worcester	
	Employment	% of Total	Employment	% of Total	Employment	% of Total	Employment	% of Total
Government	47,124	14.8	14,398	17.4	3,997	18.2	28,729	13.4
Agriculture	2,345	0.7	905	1.1	282	1.3	1,158	0.5
Construction	11,540	3.6	3,105	3.8	1,555	7.1	6,880	3.2
Manufacturing	60,138	18.9	20,789	25.2	4,525	20.5	34,824	16.3
TCPU	13,372	4.2	3,114	3.8	1,024	4.7	9,234	4.3
Trade	73,457	23.1	18,435	22.3	4,816	21.9	50,206	23.5
FIRE	17,196	5.4	2,092	2.5	652	3.0	14,452	6.8
Services	92,929	29.2	19,678	23.8	5,079	23.1	68,172	31.9
Total Employment	318,366	100.0	82,585	100.0	22,021	100.0	213,760	100.0

Source: MA Division of Employment and Training

figure 9-2

Central Region Unemployment

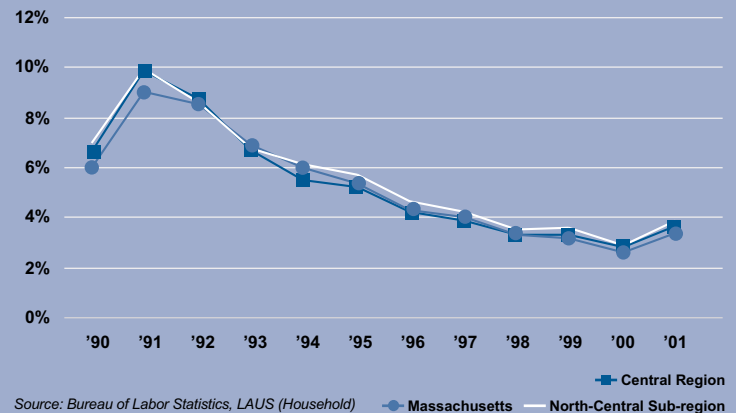


figure 9-3

Central Region Labor Force and Employment

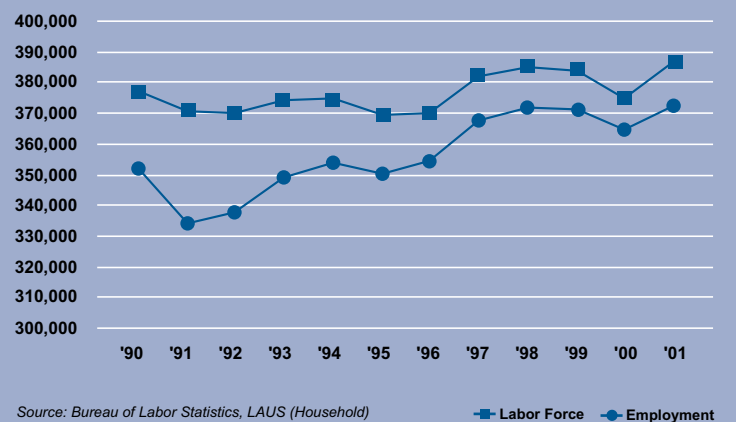
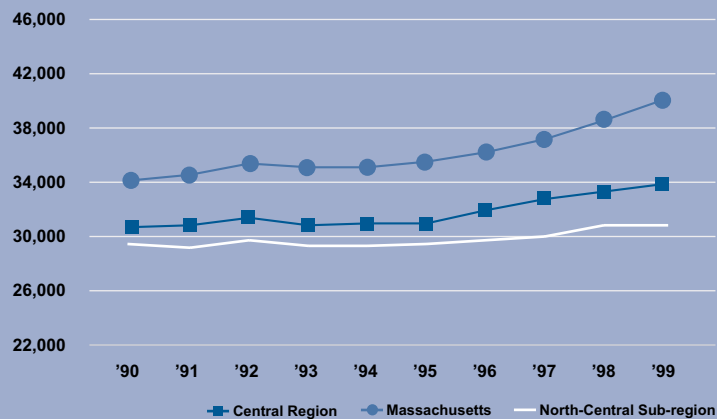


figure 9-4

Central Region Average Real Wages



Source: MA Division of Employment and Training, ES-202

figure 9-5

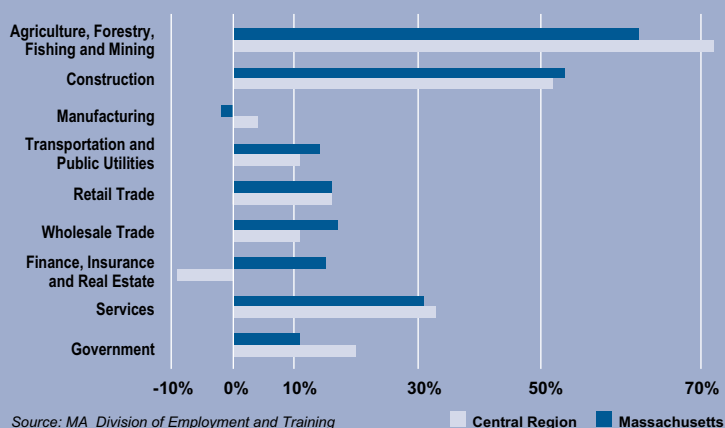
Central Region Employment by Major Division

	1993	2000	Percent of 2000 Total
Agriculture, Forestry Fishing, and Mining	1,776	2,782	0.8
Construction	9,794	14,856	4.5
Manufacturing	60,445	62,617	18.9
Transportation and Public Utilities	15,527	17,203	5.2
Retail Trade	49,916	57,746	17.4
Wholesale Trade	15,731	17,443	5.3
Government	11,809	14,221	4.3
Finance Insurance and Real Estate	17,586	15,986	4.8
Services	97,278	129,060	38.9
Total	279,862	331,914	100.0

Source: Division of Employment and Training, ES-202

figure 9-6

Central Region, Change in Employment, 1993 to 2000



Source: MA Division of Employment and Training

Employment by Major Industry Sector

While the Central Region gained 38,099 jobs between 1991 and 2001,⁸ not every industry sector grew at the same pace. Figures 9-5 and 9-6 provide data on employment shifts by major industry sector between 1993 and 2000. Construction employment grew rapidly in the Region, as in the State, due to an upturn in homebuilding and in the development of commercial sites. Manufacturing, the Region's second-largest sector and at one time its economic foundation, rebounded with a 4 percent gain in employment, even while the sector declined by 2 percent in the State overall. The finance, insurance, and real estate sector actually lost 1,600 jobs, shrinking by 9 percent. Over 60 percent of the Region's net employment gain came in services, and the sector accounted for more than three out of every eight jobs by the year 2000.

Every major industry sector in the Central Region experienced an increase in average real pay between 1993 and 2000. The gains in transportation and public utilities, retail trade, mining, manufacturing, and government actually exceeded the growth rates for those sectors in the State. However, real average wages grew more slowly in several sectors, including construction, transportation and public utilities, wholesale trade, and finance, insurance and real estate (FIRE) (see figure 9-7). The net effect of these different growth trends was slower real average wage growth in the Region than in the State as a whole.

However, two important sectors posted solid wage gains. Manufacturing enjoyed a large increase in average pay, rising 25 percent over the period, from \$45,722 to \$57,343 (2000 dollars). Though the number of employees in the finance, insurance, and real estate sector dropped, average pay in the sector increased 18 percent, rising from \$40,481 to \$47,964 (2000 dollars).

The Central Region Export Sector

As explained in Chapter 2, a healthy export sector is critical to a region's economic success. The sidebar in that Chapter on "The Massachusetts Export Sector" presented six large industry clusters as the key components of the Commonwealth's export sector. These clusters were identified in earlier State policy documents and studies, specifically *Choosing to Compete*⁹ and the more recent *Knowledge Sector Powerhouse*.¹⁰ They include four knowledge-based clusters – Information Technology, Health Care, Financial Services, and Knowledge Creation. They also include two clusters that are less knowledge intensive: Travel and Tourism, and "Traditional Manufacturing" (manufacturing industries, such as paper, plastics and rubber, metalworking, and machinery, which are not part of the Information Technology or Health Care clusters). The discussion below uses this framework to explore the Central Region's export sector.

Figure 9-8 shows export cluster growth in the Region and sub-region, as compared to Massachusetts. When interpreting the results of our analysis, please note that the employment figures reported for these large industry clusters are not meant to represent export sector jobs. The health care cluster, for example, includes physicians serving the local population. A finer picture of the composition of the Region's export sector, and the extent to which it has become part of the wider knowledge-based economy, is developed in the discussions that follow. Also, note that some of the following charts show no data for some industries in the export clusters. This does not necessarily mean that the industry is absent. Federal rules prohibit access to data that could provide information about individual firms. The lack of industry data could be due to this limitation.

Knowledge Creation

Employment in this cluster rose by over 30 percent between 1993 and 2000, surpassing the increase in the State overall. This large jump in the knowledge creation sector is due largely to growth in higher education, where employment rose by two-thirds. Research and test services also saw employment expand by more than 60 percent. Management, public relations, advertising, and accounting services and engineering and architectural services also had sharp increases in employment, though less so than the Commonwealth (see figure 9-9).

Health Care

Employment in this cluster increased by 9 percent from 1993 to 2000, slightly less than the 10 percent gain statewide. This increase can be attributed to significant growth in health services, which cater primarily to local residents. The Central Region did not experience any discernible increase in the drug and pharmaceutical industry¹¹ and actually saw a 6 percent contraction in medical instruments manufacturing (see figure 9-10 on next page).

The common wisdom sees the Central Region enjoying continued growth in biotech throughout the 1990s. This is partially true. The number of biotech businesses did increase in number by 37 from 1996 to 2001. Employment, however, fell by nearly 600. The average biotech firm became smaller, with the average number of employees dropping from 44 to 23. Large firms as AstraZeneca in Westborough; Cambridge Biotech Corp. and Neptune Pharmaceuticals in Worcester; and Boston Scientific and Precision Wire, both in Milford, either reduced staff or ceased operations in the Region altogether. The emergence of many small startups did not compensate for these employment losses.

⁸ Employment is measured here using the Bureau of Labor Statistics, ES-202 series, which are employer reports of payroll jobs rather than household-based measures of employed or unemployed people. As a result, the numbers will differ from employment figures based on the household survey presented in other sections of the document.

⁹ Massachusetts Executive Office of Economic Affairs and the University of Massachusetts, (Boston: 1993).

¹⁰ Robert Forrant, Philip Moss, and Chris Tilly, (Boston: UMass Donahue Institute 2001).

¹¹ The Massachusetts Division of Employment and Training suppressed the data to preserve employer confidentiality.

figure 9-7

Central Region, Change in Real Average Pay, 1993 to 2000

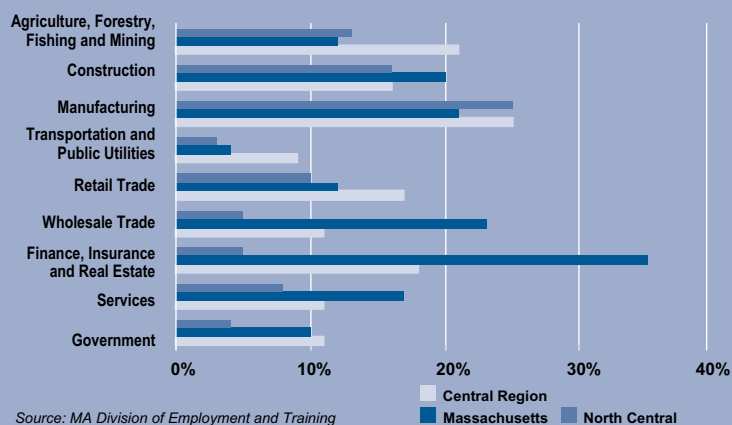


figure 9-8

Employment Change in the Commonwealth's Export-Oriented Clusters: The Central Region, 1993 to 2000

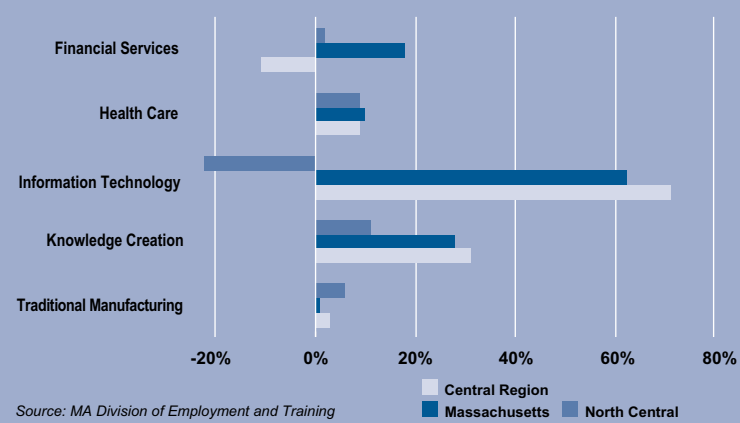


figure 9-9

Knowledge Creation Change in Employment, Central Region: 1993 to 2000

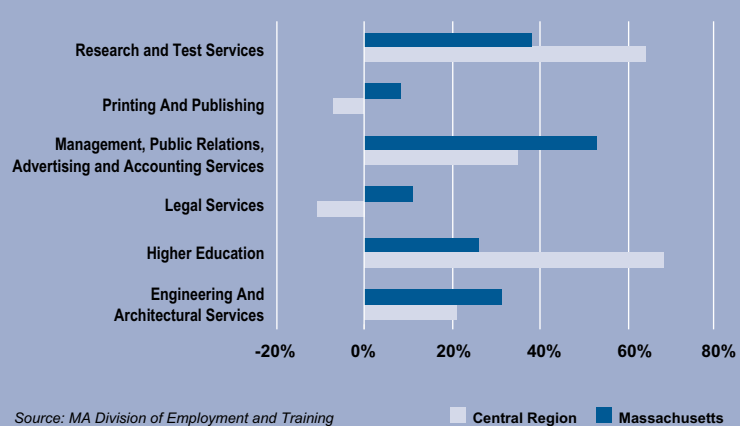
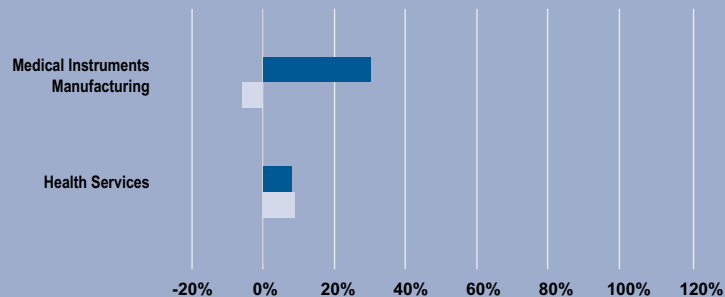


figure 9-10

Health Care, Change in Employment, Central Region: 1993 to 2000

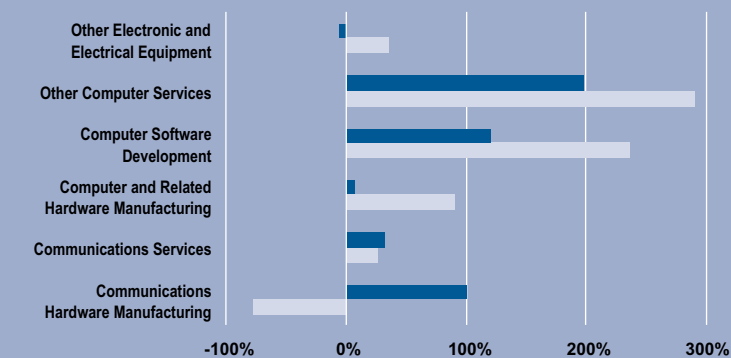


Source: MA Division of Employment and Training

Central Region Massachusetts

figure 9-11

Information Technology Change in Employment, Central Region: 1993 to 2000

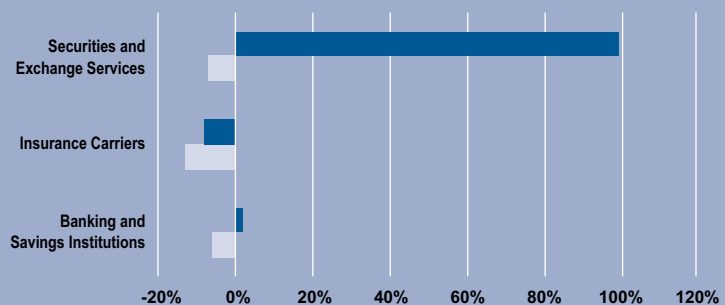


Source: MA Division of Employment and Training

Central Region Massachusetts

figure 9-12

Financial Services Change in Employment, Central Region: 1993 to 2000



Source: MA Division of Employment and Training

Central Region Massachusetts

Information Technology

IT employment in Central Massachusetts soared 71 percent from 1993 to 2000, surpassing the statewide gain of 62 percent. This increase is largely attributable to growth in computer software development and other computer services. Employment in software development nearly tripled, while employment in computer services more than doubled. Both subgroups grew much faster in the Region than in the State as a whole (see figure 9-11).

Financial Services

Employment in financial services fell 11 percent from 1993 to 2000, a significant departure from the Commonwealth's 18 percent gain. This decline is largely due to the layoffs at major insurance carriers in the Worcester area – jobs that tend to be export-oriented. Employment in banking and savings institutions also slipped, most likely the result of bank mergers and the subsequent streamlining of staff and resources. Employment even fell in the securities and exchange services sub-sector, which grew spectacularly in the Commonwealth (see figure 9-12).

Traditional Manufacturing

Employment in this cluster, the heart of the Region's traditional export base, grew just three percent between 1993 and 2000. This exceeded the statewide gain of one percent. Employment in apparel and textiles jumped 15 percent, while falling over 30 percent statewide. Employment in machinery increased by 10 percent, although here the State grew faster. Plastics and rubber manufacturing, a regional specialty, grew more quickly in the North-Central sub-region (4 percent) than in the Region as a whole (2 percent), but slightly below the 5 percent statewide rate. Workers in the North Central sub-region rely on jobs in this cluster to keep pace with real average wages in the region (see figure 9-13).

Travel & Tourism

The growing impact of the Travel and Tourism cluster in the Central Region can be seen in the experience of its hotel industry. In fiscal year 2000, hotels and motels in Worcester County grossed an estimated \$100 million in room sales, up 36 percent over fiscal year 1997 levels.¹² These expenditures define a conservative estimate of traveler spending. This is because total spending typically includes meals, retail purchases, and attractions, in addition to spending on accommodations.

Between 1997 and 2000, the number of hotels in the county increased 19 percent, to 64. Employment expanded 15 percent, to 2,077 workers. Pay in the industry is low and frequently offers part-time jobs. Yet average real wages increased 21 percent in this three-year period, to \$17,284.

¹² Estimate based on FY00 State room occupancy tax collections, which are levied at 5.7 percent of the room rate.

Demographics

Population

The Region's population growth exceeded the statewide rate in both the 1980s and 1990s. The population in Central Massachusetts jumped 10.1 percent in the 1980s, twice the pace in the Commonwealth, and by 1990 accounted for 12 percent of the statewide total.

Resident Age Distribution

Shifts in the Region's age distribution echo State and national trends. As the leading edge of the baby-boom generation approaches retirement, they have expanded the size of the 45 to 64 age group by nearly one-third from 1990 to 2000. Other significant changes, also seen across the State and nation, are a sharp decline in the 19-24 age group and a nearly 11 percent rise in the population under 18 (see figure 9-14). Given these trends, the retention of the Region's younger residents is essential to ensuring the availability of workers to support future economic growth.

The Central Region's population is approximately 89.7 percent White, 2.8 percent Black, and 2.6 percent Asian. While all groups grew in the 1990s, the number of Black residents increased by over 30 percent, more than twice the 14 percent rise in the State overall. The Asian population also increased dramatically, but the Region's 69 percent increase closely mirrors the State's 66 percent gain. The share of the population that is White has thus declined somewhat since 1990 (see figure 9-14). The Region's Hispanic population also grew rapidly, expanding by more than half. In 1990, Hispanics were 4.6 percent of its population; their share grew to 6.7 percent in 2000.¹³

Housing

About 61 percent of the housing units in the Central Region were owner-occupied in 2000. Thirty-four percent were renter-occupied and the remaining 5 percent were unoccupied, seasonal, recreational, or occasional-use. This represents no significant departure from the 1990 distribution. It is worth noting that the owner-occupied rate remained stable while statewide it dipped from 59.5 percent to 57.5 percent (see figure 9-15 and 9-16 on page 98).

Regional Strengths and Competitive Advantages

Central Massachusetts is frequently described as the zone of transition, set between the constantly changing economy of Greater Boston to the east and the quiet, steady evolution of Western Massachusetts. The Region indeed has elements that reflect the best of east and west, and which underlie its overall economic performance.

Location. The Region has clear locational advantages in its con-

figure 9-13

Traditional Manufacturing Change in Employment, Central Region: 1993 to 2000

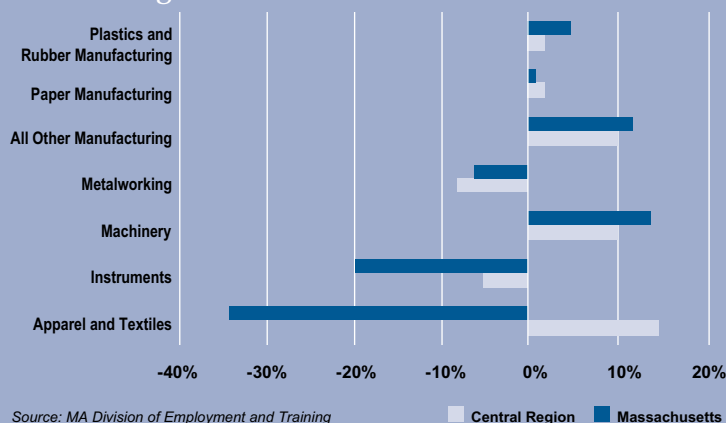


figure 9-14

Central Region Demographic Summary

	Central Region			MA		
	1990	2000	Change	1990	2000	Change
Total population	729,674	773,220	6.0%	6,016,425	6,349,097	5.5%
Age (share of total)						
Under 18	179,305	198,910	10.93%	1,353,075	1,500,064	10.9%
19-24	81,782	64,507	-21.12%	709,099	579,328	-18.3%
25 to 44	243,397	242,126	-0.52%	2,019,217	1,989,783	-1.5%
45 to 64	127,566	168,953	32.44%	1,115,150	1,419,760	27.3%
65 and over	97,624	98,724	1.13%	819,284	860,162	5.0%
Race/Ethnicity (share of total)						
White	684,902	693,245	1.4%	5,405,374	5,367,286	-0.7%
Black	16,299	21,365	31.1%	300,130	343,454	14.4%
Asian	11,763	19,876	69.0%	143,392	238,124	66.1%
Other race	17,710	24,731	39.6%	167,529	254,228	51.8%
Two or more races*	na	14,003	na	na	146,005	na
Hispanic (of any race)	33,635	51,610	53.4%	287,549	428,729	49.1%

* the category of persons with two or more races did not exist in the 1990 Census

Source: U.S. Bureau of the Census, Decennial Population Census

nections to other parts of the Commonwealth and to gateways to national and global markets. State Route 2 and I-90 (the Massachusetts Turnpike) both provide high-speed access to Boston in the east and to Albany and beyond in the west. I-495 touches the eastern edge of the Region, while Route 146 flows from Providence through the Blackstone Valley. I-190 connects Worcester to Leominster and the edges of Fitchburg. Moreover, I-395 provides quick access to New London. I-84, on the westerly edge, provides quick access to Hartford and beyond. Routes 9, 12 and 122 also provide important inter-regional connections for commuters and commercial users alike. This highway system is joined by freight and commuter rail and easy access to three freight and commercial airports, ensuring that the Region is well connected to both regional and distant markets.

Flexibility. Cities and towns throughout the Region have been actively reaching out to develop new as well as traditional indus-

¹³ Data describing race and ethnicity must be used with caution. For more information, see the Part II Introduction.

try clusters. This is most evident in its cities, which have been shifting their economic focus to new, knowledge-based industries and from traditional to more flexible manufacturing techniques. Worcester's efforts to expand its highly successful Biotechnology Park and Leominster's efforts to transform its plastics industry illustrate this trend. The Region's smaller towns have also been active; Milford, Bellingham, Westborough, and Shrewsbury are making themselves centers of knowledge-based industries. Blackstone Valley towns are updating their zoning to attract industry suitable to their character. Southbridge and Sturbridge are modernizing their infrastructures and building on the local expansion of the defense sector to stimulate growth.

Labor force. The Region's skilled workforce has been a strong asset. Its blue-collar workers are highly skilled in precision tooling, mold making, fiber optics, and other manufacturing trades. These workers, coupled with the presence of the region's 14 major institutions of higher education, make Central Massachusetts an optimal location for firms that combine research and development with precision production. The Region's workforce has the necessary skills in many trades and occupations and can serve a wide variety of industries. Companies relocating to the Region can expect to draw from a rich pool of educated and well-trained workers. They also have the support networks and just-in-time resources required for seamless operation.

Cost of living. The Region's assets are further enhanced by the quality of life and by housing prices that remain well below those found in Greater Boston. Central Massachusetts has a wide variety of housing, ranging from rentals and older units to modern tract housing. The critical balance between wages and housing costs is also far more favorable here than further east.

The Central Region is no longer the Commonwealth's center of traditional manufacturing. Transportation connections, especially along Rt.146 and the Massachusetts Turnpike, have opened new opportunities. Knowledge-based industries, shifting westward from Greater Boston, have increasingly found good locations in the region, spawning edge cities such as Westborough and Milford. The Region's high quality of life and low cost of living are increasingly appealing. These factors, critical to its success in the 1990s, should make Central Massachusetts an attractive place to live and work for years to come.

Challenges to Future Growth

The Central Region is still in flux. As furniture and other traditional manufacturing firms have declined over the past decade, new industries have been launched. On one hand, this turbulence is positive. Modern jobs have increasingly replaced those that no longer make economic sense. This turbulence, however, also creates significant challenges to the region's long-term prosperity.

Unskilled workers. The Region's movement toward a more modern economy has meant that workers with minimal skills are being left behind. The region is also attracting new immigrants with little education and the need for language training. There is a danger of a widening gap in the Central Region: the skilled, educated, and relatively prosperous on one side and the unskilled and uneducated on the other. This skills problem will become more important as three other factors come into play. First, its population is aging, experienced workers are reluctant to change jobs to pursue new opportunities. Second, the Region experienced a dramatic decline in the number of 19- to 24-year-olds who are joining the workforce at the entry level. Finally, the current unemployment rate of about 4 percent, in the midst of a recession, means there are not many workers available for employment. The Region is hard-pressed to meet the labor needs of its employers, and the situation will likely worsen when the recession ends. In short, the region needs to ensure that all its citizens are prepared to meet the workplace opportunities of the future.

Unbalanced growth. Communities on the eastern edge of the Region are becoming increasingly prosperous as they embrace new growth industries. Worcester, Leominster, the Devens District and the Blackstone Valley are also well positioned for growth. However, several Central Region communities, such as Winchendon, Westminster, Templeton, and Athol, have shown little economic advancement. The Center for Advanced Fiberoptic Applications and the Department of Defense Center both hold great potential for in the Southbridge-Sturbridge area, yet more real economic progress has been slow.

Unbalanced growth could lead communities to and to court firms that offer short-term advantages rather than a more promising economic future. For example, mall developers and warehouse owners are eager to find sites along the new intersection of the Massachusetts Turnpike and Rt. 146. For communities hungry for jobs and tax-base expansion, it can be tempting to take the first offer. Given the statewide shortage of industrial land, this might not be the best approach to development in Central Massachusetts.

The Region must also address the indirect impacts of rapid economic development. Devens has grown, EMC expanded, and Cisco Systems has begun construction of its nearby Foxboro campus. This has brought to the region many skilled, high-paid workers, who have increased demand for nice homes, good schools, and a high quality of life. This expansion of knowledge-based ventures brings economic benefits, but also generates costs. It has driven up housing costs and has displaced poorer populations. There is a need to expand the supply of housing in Central Massachusetts for residents in all income ranges. But some communities are limited by regulations and others lack land or infrastructure.

Lack of unification. Towns in the Central Region are organized into a many different planning bodies: the Central Massachusetts Regional Planning Commission, the Metropolitan Area Planning Commission, the Devens Commission, the Montachusett Regional Planning Commission, and even the Franklin County Regional Planning Commission. The Region also has many strong Chambers of Commerce and an active I-495 Initiative Group. Coordinating these various groups has proven challenging. Until such organizations can identify their common interests and pool their resources, it will be difficult to maximize regional planning solutions.

Regional Policy Priorities

Workforce training. The Region must improve relationships among local colleges, community organizations, business groups, and workforce investment boards to better apply its resources to workforce training challenges. These agencies should be held closely accountable for their ability to raise worker skills.

Economic Development Planning. Regional planning agencies, Chambers of Commerce and municipal economic development officials need to work together more effectively. Improved collaboration will be necessary if the Region is to develop a common vision for its future.

Transportation. It is important to complete the Rt. 146 connector to I-290, expand commuter rail service to meet growing demand, address mass transit needs along the eastern edge of the Region, and complete the Fitchburg-Route 2 connector. While Worcester’s regional airport has made substantial progress in recent years, attracting new carriers and destinations is still needed.

Affordable housing. This is increasingly a critical challenge in all areas of Central Massachusetts. This is becoming particularly problematic in eastern half of Worcester County and in the metro Worcester area which, in recent years, has become more attractive to families seeking alternatives to higher housing costs in Greater Boston.

Brownfields revitalization. This Region has extensive brownfields. Redevelopment can help protect community character, improve the environment, and bring these sites back to active economic use.

Linking the Region’s Policy Priorities to Potential Solutions

Part 3 provides a variety of policy options that can help address the Region’s economic development needs. Figure 9-17 shows where to find relevant options.

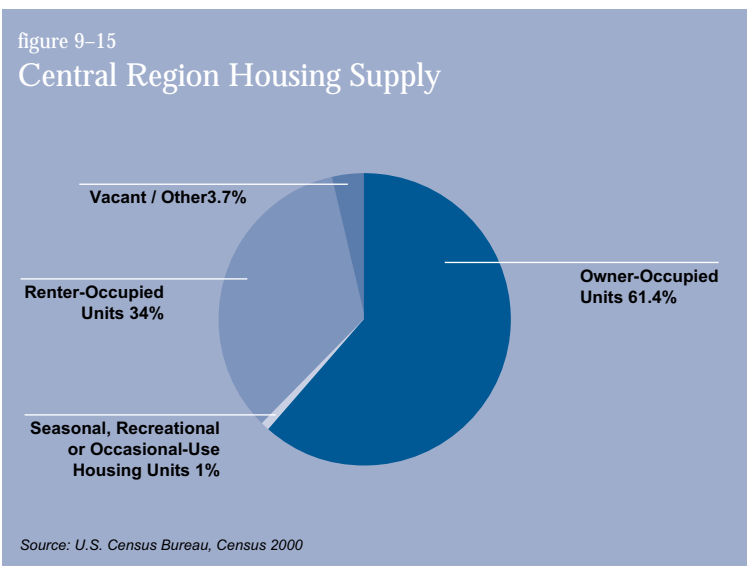


figure 9-16
Central Region Home Ownership

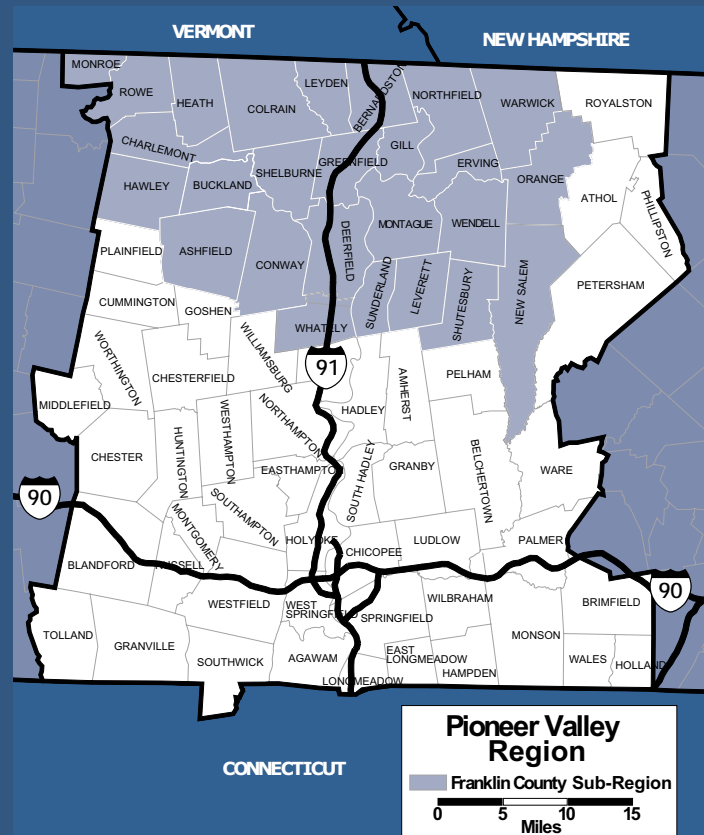
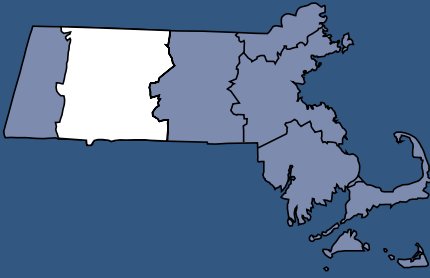
	1990	2000	Difference
Central Region	61.3%	61.4%	0.1%
% Over/Under State	1.9%	3.9%	2.0%
MA	59.5%	57.5%	-2.0%

Source: U.S. Census Bureau, Census 2000

figure 9-17
Central Region Policy Options for Regional Properties

Policy Priority	See Policy Options, Under Desired Outcomes in Part III
Workforce Training	"Our firms have access to the talent they need to succeed," pg. 123. "Worker skills match the needs of business and the competitive environment," pg. 124. "Firms in our export industry clusters continually innovate to meet high value customer needs most effectively," pg. 119.
Economic Development Planning	"State government provides more coordinated services and resources to businesses, particularly small businesses," pg. 131. "Massachusetts implements housing affordability solutions to support growing businesses and their employees," pg. 129.
Transportation	"Massachusetts is a leader in implementing development strategies that preserve a high quality of life," pg. 128.
Affordable Housing	"Massachusetts implements housing affordability solutions to support growing businesses and their employees," pg. 129.
Brownfields Revitalization	"Our firms have access to the talent they need to succeed," pg. 123 "Massachusetts is a leader in implementing sustainable growth strategies to ensure high quality of life," pg. 128.

pioneer valley region



The Pioneer Valley – defined by the Connecticut River valley – runs north-to-south from Canada, then along the Vermont-New Hampshire border, through three western Massachusetts counties stacked north to south: Franklin, Hampshire, and Hamden,¹ then to the sea through central Connecticut. The Valley is in many ways a cohesive economic unit, with a long history of precision metalworking and expertise in insurance. These industries still form the backbone of the Valley’s export base.

In Massachusetts, the Springfield metropolitan area is the economic center of the Pioneer Valley Region. The city sits at the crossroads of the Massachusetts Turnpike, which runs east-to-west, and Interstate 91, which runs north-to-south down the Valley from Canada to the sea. The Region’s economy still flows primarily north and south. It has relatively few business-to-business dealings even with its immediate neighbors to the east and west.

Springfield itself is located along the Connecticut border, close to Hartford and the large complex of economic activity to the south. Springfield’s numerous small machine shops supply large, high-tech manufacturing firms located throughout the Valley that make jet engines, aerospace components, military equipment, and other high-value products. The Massachusetts Mutual Life Insurance Company (MassMutual), headquartered in Springfield, is part of an insurance cluster that includes well-known carriers located in Hartford. These industries serve national and international markets using a well-developed road and rail transportation network and Bradley International Airport in northern

Connecticut. Along with its many colleges, its university and two significant medical centers, the Region boasts one of the largest retail malls and the biggest amusement park in New England. With a mix of city, small town, and rural communities and a low cost of living, the Pioneer Valley also provides an attractive quality-of-life to its residents.

The 1990s was a difficult decade, however, as the Pioneer Valley found itself in the midst of a long-term economic transition. The Region was hit hard by: 1) the recession of the early 1990s; 2) the defense industry restructuring that followed the end of the Cold War; and 3) a prolonged slump in the insurance industry. Many of its manufacturing and financial services industries actually have good prospects for growth in national and global markets in the 21st century. The task at hand is both to diversify the Region’s export base away from its traditional industrial-revolution roots and to re-orient its traditional clusters toward a more competitive structure that can thrive in the new century.

There are signs that this re-orientation is already underway. While employment remains below levels seen at the end of the 1980s, the job count has increased steadily since the middle of the decade. We find supporting evidence among “old-line” manufac-

¹ The Pioneer Valley Region also includes four towns in northwest Worcester County: Athol, Petersham, Philipston, and Royalston.

² *New England’s Knowledge Corridor: The Making of an InterState Region*. Connecticut Center for Economic Analysis, Connecticut Economic Resource Center, and the UMass Donahue Institute, 2002.

turing industries – often viewed euphemistically as “mature” – of a transformation toward a high-tech ways of doing business. Recent research conducted for the Hartford-Springfield Economic Partnership demonstrates that a four county region, including Hampden and Hampshire counties, has become one of the most productive in the nation.² This suggests that Pioneer Valley firms, across a broad spectrum of industries, are replacing traditional approaches with better, often high-tech ways of doing business.

Sub-Regional Analysis

The Pioneer Valley stretches from the City of Springfield in Hampden County³ through the more rural Hampshire County,⁴ and into Franklin County,⁵ which is rural, hilly, and more agricultural, but with a significant manufacturing base. This report defines Franklin County as a sub-region for detailed analysis.

Because of the way economic information is collected and recorded, detailed data at the sub-region level is often only available for Franklin County. When available, this data will be presented in the charts and figures that follow.

Economic Overview

Employment

Employment in the Pioneer Valley Region posted its highest-ever level – just under 335,000 workers – at the peak⁶ of the previous expansion in 1989 (Figure 10-2). Not surprisingly, the regional unemployment rate was also quite low at 3.9 percent, one-tenth of a point better than the statewide rate. But economic conditions then deteriorated rapidly. Employment fell more than 7 percent, to 310,050 by 1992, and joblessness hit 9.5 percent. Employment in the Commonwealth fell by 200,000 between 1989 and 1991, a 6.4 percent decline, and unemployment peaked at 9.1 percent (Figure 10-3).

The Region’s unemployment rate fell steadily, to 3 percent in the year 2000. The Commonwealth’s jobless rate that year reached 2.6 percent. While falling unemployment was certainly good news, the major factor was not a rise in employment but out-migration and a decline in the Region’s workforce – an ongoing

³ Hampden County comprises: Agawam, Blandford, Brimfield, Chester, Chicopee, East Longmeadow, Granville, Hampden, Holland, Holyoke, Longmeadow, Ludlow, Monson, Montgomery, Palmer, Russell, Southwick, Springfield, Tolland, Wales, West Springfield, Westfield, and Wilbraham.

⁴ Hampshire County comprises: Amherst, Belchertown, Chesterfield, Cummington, Easthampton, Goshen, Granby, Hadley, Hatfield, Huntington, Middlefield, Northampton, Pelham, Plainfield, South Hadley, Southampton, Ware, Westhampton, Williamsburg, and Worthington.

⁵ Franklin County comprises: Ashfield, Bernardston, Buckland, Charlemont, Colrain, Conway, Deerfield, Erving, Gill, Greenfield, Hawley, Heath, Leverett, Leyden, Monroe, Montague, New Salem, Northfield, Orange, Rowe, Shelburne, Shutesbury, Sunderland, Warwick, Wendell, and Whately.

⁶ The data in this section on the number of people employed, in the labor force, and unemployed are taken from the household survey. They therefore will not match the employer-based data used in other sections that report the number of payroll jobs.

figure 10-1

Pioneer Valley Employment by Major Industry and County, 1999

	Franklin County		Hampshire County		Hampden County	
	Employment	% of Total	Employment	% of Total	Employment	% of Total
Agriculture	478	1.8	798	1.4	1,388	0.7
Construction	816	3.0	1,822	3.3	6,794	3.4
Manufacturing	5,974	22.2	5,068	9.2	33,006	16.5
Transportation and Public Utilities	994	3.7	1,219	2.2	8,794	4.4
Trade	5,621	20.9	14,646	26.6	47,160	23.6
Finance, Insurance, and Real Estate	819	3.0	1,597	2.9	11,408	5.7
Services	7,293	27.1	17,214	31.2	59,584	29.8
Government	4,661	17.3	12,515	22.7	31,603	15.8
Total Employment	26,907	100.0	55,134	100.0	199,932	100.0

Source: MA Division of Employment and Training ES-202

figure 10-2

Pioneer Valley Region Labor Force and Employment

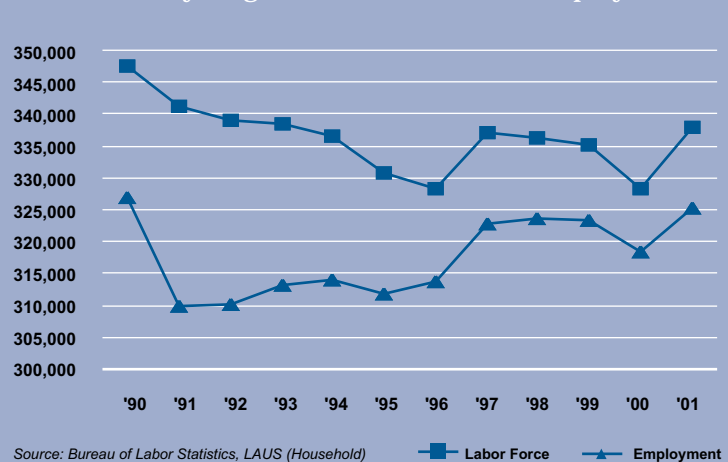


figure 10-3

Pioneer Valley Region Unemployment Rate

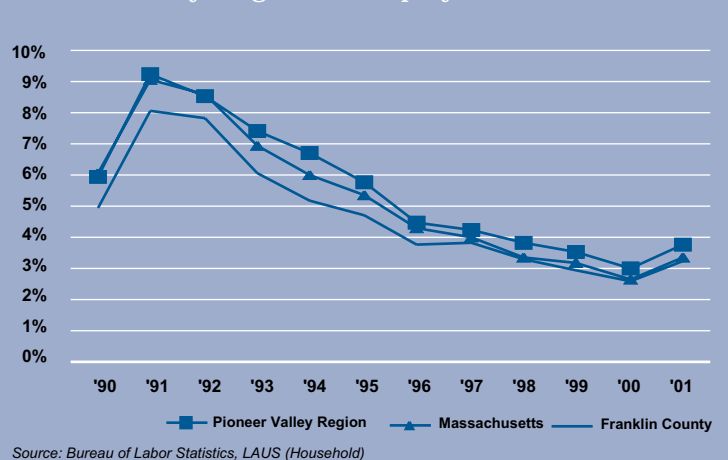
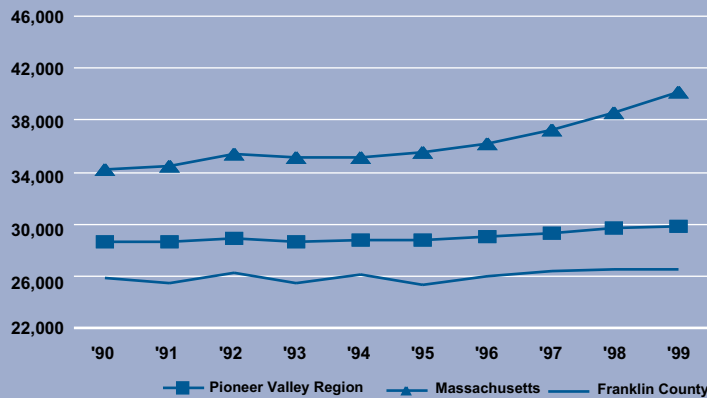


figure 10-4

Pioneer Valley Region Average Real Wages



Source: MA Division of Employment and Training, ES-202

phenomenon in the Pioneer Valley through much of the decade. Employment has grown steadily since 1992, and is now approaching levels seen in the late 1980s. There has been virtually no growth in the Region's labor force, however, and its level was slightly less in 2001 than in 1992 (see figure 10-2 on previous page).

Income

Average real wages⁷ in the Pioneer Valley grew modestly during the 1990s, rising over the decade from \$28,600 to \$29,800 (2000 dollars). In Franklin County, real wages virtually stagnated. They averaged \$25,861 in 1990 and \$26,500 in 2000. By contrast, average real wages in the Commonwealth went from \$34,200 to \$40,100 over the decade⁸ (see figure 10-4). The Region's modest growth in pay, relative to the rest of the State, is seen in all sectors of the economy other than government (see figure 10-5).

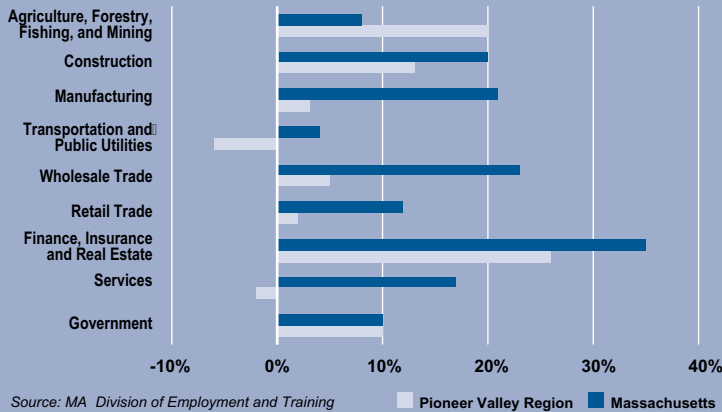
Employment⁹ by Major Industry Sector

At the major-industry level of detail, the Pioneer Valley's economy in the year 2000 closely resembles that of the State: Services is the largest sector, at 40 percent of total employment; Wholesale and retail trade account for about 24 percent of total employment. In fact, these three divisions account for nearly two out of three jobs in the Region. Manufacturing, which in so many ways defines the heritage of the Pioneer Valley, represents 16 percent of all employment. Overall, employment growth over the expansion running from 1993 to 2000 exceeded 15 percent; the number of manufacturing jobs, by contrast, grew less than 1 percent (see figure 10-6).

A notable change in industry mix is the growing prominence of manufacturing employment in Franklin County. While the fraction of manufacturing jobs in the Region as a whole declined over the past decade, in Franklin County the division's share of employment went from 23 percent in 1993 to 25 percent in 2000. While mills and farms are commonly seen as mutually exclusive, the proportion of agricultural employment in the County, albeit small, is double what it is in the rest of the Region (2 percent of employment in Franklin County versus 1 percent in the Pioneer Valley Region as a whole). In addition, Franklin County has seen notable growth in knowledge-sector industries, especially information technology, financial services, and knowledge creation (see figure 10-7).

figure 10-5

Change in Real Average Pay by Major Industry, Pioneer Valley Region: 1993 to 2000



Source: MA Division of Employment and Training

figure 10-6

Pioneer Valley Region Employment by Major Industry

	1993	2000	Percent of 2000 Total
Agriculture, Forestry, Fishing, and Mining	1,996	2,787	0.9
Construction	9,150	11,937	4.0
Manufacturing	46,841	47,092	15.8
Transportation and Public Utilities	14,857	17,606	5.9
Wholesale Trade	9,740	12,234	4.1
Retail Trade	50,870	58,093	19.5
Finance, Insurance, and Real Estate	15,235	14,560	4.9
Services	98,055	120,545	40.4
Government	11,638	13,636	4.6
Total	258,382	298,490	100.0

Source: Division of Employment and Training, ES-202

⁷ The U.S. consumer price index (CPI) was used to adjust nominal wages for the effects of inflation.

⁸ The Greater Boston area, where the cost of living is considerably higher than in the Pioneer Valley, dominates these Statewide data. Any wage or income comparisons made between the Region and the State must be made with the cost-of-living differential in mind.

⁹ Employment is measured here using the Bureau of Labor Statistics, ES-202 series, which are employer reports of payroll jobs rather than household-based measures of employed or unemployed people. As a result, the numbers will differ from employment figures based on the household survey presented in other sections of the document.

The Pioneer Valley Region Export Sector

As explained in Chapter 2, a healthy export sector is critical to a Region's economic success. The sidebar in that Chapter on "The Massachusetts Export Sector" presented six large industry clusters as the key components of the Commonwealth's export sector. These clusters were identified in earlier State policy documents and studies, specifically *Choosing to Compete*¹⁰ and the more recent *Knowledge Sector Powerhouse*.¹¹ They include four knowledge-based clusters – Information Technology, Health Care, Financial Services, and Knowledge Creation. They also include two clusters that are less knowledge intensive: Travel and Tourism and "Traditional Manufacturing" (manufacturing industries, such as paper, plastics and rubber, metalworking, and machinery, which are not part of the Information Technology or Health Care clusters). The discussion below uses this framework to explore the Pioneer Valley Region's export sector.

Figure 10-8 shows export cluster growth in the Region and sub-region, as compared to Massachusetts. When interpreting the results of our analysis, please note that the employment figures reported for these large industry clusters are not meant to represent export sector jobs. The Health Care cluster, for example, includes physicians serving the local population. A finer picture of the composition of the Region's export sector, and the extent to which it has become part of the wider knowledge-based economy, is developed in the discussions that follow. Also, note that some of the following charts show no data for some industries in the export clusters. This does not necessarily mean that the industry is absent in the Region. Federal rules prohibit access to data that could provide information about individual firms. The lack of industry data could be due to this limitation.

With the exception of Health Care, employment in the export clusters has grown more rapidly in Franklin County than in the Pioneer Valley Region overall. This should place the sub-region in a relatively strong position to take advantage of the next economic expansion.

Information Technology

In the fast-growing Information Technology cluster, employment expanded briskly in software and services and fell sharply in the electronic and electrical equipment manufacturing sector¹² (see figure 10-9).

figure 10-7

Change in Employment, by Major Industry, Pioneer Valley Region: 1993 to 2000



figure 10-8

Employment Change in the Commonwealth's Export Clusters: The Pioneer Valley Region, 1993 to 2000

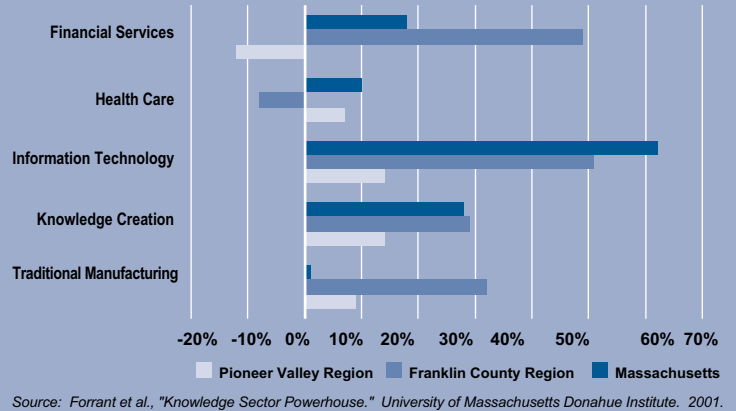
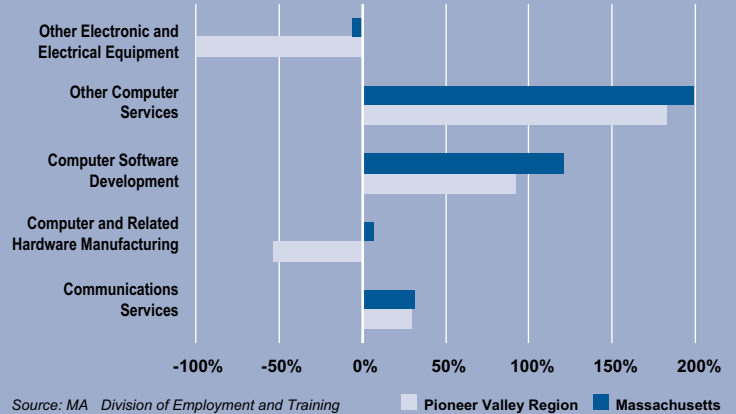


figure 10-9

Information Technology: Change in Employment, Pioneer Valley Region: 1993 to 2000



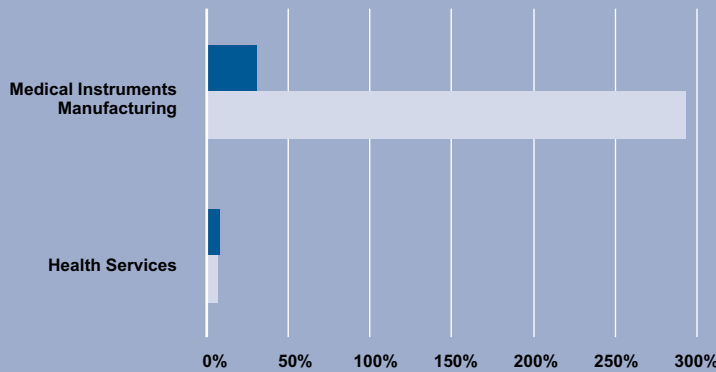
¹⁰ Massachusetts Executive Office of Economic Affairs and the University of Massachusetts, (Boston, 1993).

¹¹ Robert Forrant, Philip Moss, and Chris Tilly, (Boston: UMass Donahue Institute, 2001).

¹² The Massachusetts Division of Employment and Training suppressed data for the Communications Hardware Manufacturing sub-sector to preserve employer confidentiality.

figure 10-10

Health Care: Change in Employment, Pioneer Valley Region: 1993 to 2000



Source: MA Division of Employment and Training

Pioneer Valley Region Massachusetts

Health Care

Employment in medical instruments manufacturing nearly tripled, albeit from a small employment base, during the 1993 - 2000 expansion. No other component in this cluster experienced any significant growth during the period¹³ (see figure 10-10).

Knowledge Creation

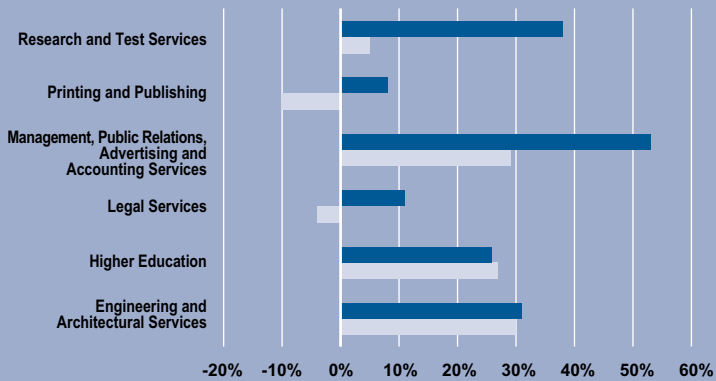
Three components of this cluster have grown at about the same brisk pace since 1993: management, public relations, advertising, and accounting services; higher education; and engineering and architectural services. Only higher education, however, matched the gains registered by the Commonwealth overall. Printing, publishing, and legal services firms shed employees during this same period (see figure 10-11).

Financial Services

The employment decline in this cluster masks a significant shift in the industry mix in regional financial services. While both insurance carriers and banking and savings institutions lost employment since 1993, the number of jobs in securities and exchange services increased by nearly 70 percent (Figure 10-12).

figure 10-11

Knowledge Creation: Change in Employment, Pioneer Valley Region: 1993 to 2000



Source: MA Division of Employment and Training

Pioneer Valley Region Massachusetts

Traditional Manufacturing

Employment in plastics and paper manufacturing, and especially in machinery, advanced during the expansion following 1993. But employment in metalworking, long a staple of Pioneer Valley manufacturing, declined along with employment in apparel and textiles¹⁴ (see figure 10-13 on opposite page).

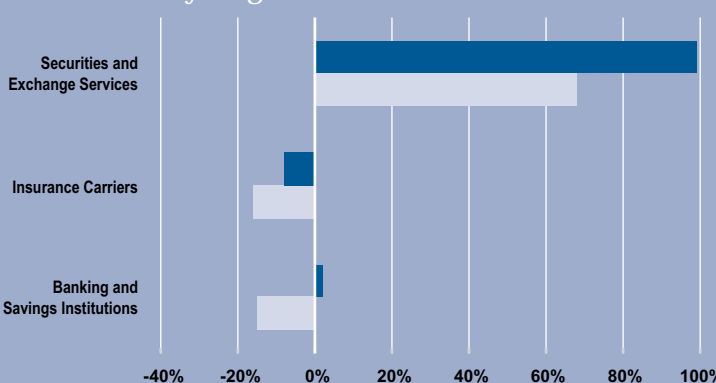
Travel and Tourism

The growing impact of the Travel and Tourism cluster in the Pioneer Valley Region can be seen in the experience of its hotel industry. In the year ending June 2000, hotels and motels in Hampden, Hampshire, and Franklin Counties grossed an estimated \$64.7 million in room sales, up 33 percent over the year ending June 1997.¹⁵ These expenditures define a conservative estimate of traveler spending in the Region. This is because total spending typically includes meals, retail purchases, and attractions, in addition to spending on accommodations.

In 2000, the Pioneer Valley hosted 72 hotels that, on average, employed 26 workers. Pay in the industry is low and frequently offers mostly part-time jobs. Average real wages increased and reached \$15,810 during that year.

figure 10-12

Financial Services: Change in Employment, Pioneer Valley Region: 1993 to 2000



Source: MA Division of Employment and Training

Pioneer Valley Region Massachusetts

¹³ The Massachusetts Division of Employment and Training suppressed data for the drugs and pharmaceuticals sub-sector to preserve employer confidentiality.

¹⁴ The Massachusetts Division of Employment and Training suppressed 1993 data for the Instruments sub-sector to preserve employer confidentiality.

¹⁵ Estimate based on FY 2000 State room occupancy tax collections, which are levied at 5.7 percent of the room rate.

Demographics

Population

In the ten years between the last two decennial censuses, the Pioneer Valley Region saw its population grow 1 percent. During the same period, the number of people in the Commonwealth increased by more than 5 percent (see figure 10-14).

Resident Age Distribution

The Pioneer Valley has seen a noteworthy shift in its age distribution over the past ten years. Most significant has been the drop in both the proportion and the number of individuals between 25 and 44 years old (see figure 10-14). The decline in numbers is due in part to out-migration, as the Region has historically experienced significant out-migration in this age group. Aging has also reduced the proportion of individuals between 25 and 44: the Pioneer Valley saw an increase of more than 30,000 individuals in the group between 45 and 64 years old. The median age of the population also increased from 33.1 to 36.2 years.

The Region’s population has remained predominantly White, though there have been some dramatic changes at the margins. Although the White population actually fell 4.3 percent in the ten years between censuses, in 2000 it still accounted for over 85 percent of the population. The small increase in the overall population was due to a growing number of Black residents and Asians. The Black population increased by 8.7 percent, while the Asian population jumped by approximately one third. It should be noted that Asians represent only a small portion of the Region’s population and despite their rapid growth during the 1990s, the Asian population remains small in absolute terms (see figure 10-14).

Perhaps the most dramatic demographic change in the 1990s was the growth of the Hispanic population. Those identifying themselves as Hispanic went from 50,630 in 1990 to 76,090 in 2000, a gain of over 50 percent. “Hispanic” is a self-identified designation and such an increase might be due in part to heightened awareness rather than a growth in magnitude. Nevertheless, self-identified Hispanics now account for 11 percent of the people living in the Pioneer Valley.

Finally, Franklin County’s total population increased by more than 2 percent during the 1990s, double the rate of the Pioneer Valley as a whole. As of 2001, Franklin County accounted for more than 11 percent of the Region’s employment and workforce. While the last recession hit the county hard, job growth here started earlier and went on virtually uninterrupted throughout the 1990s.

figure 10-13
Traditional Manufacturing: Change in Employment, Pioneer Valley Region: 1993 to 2000

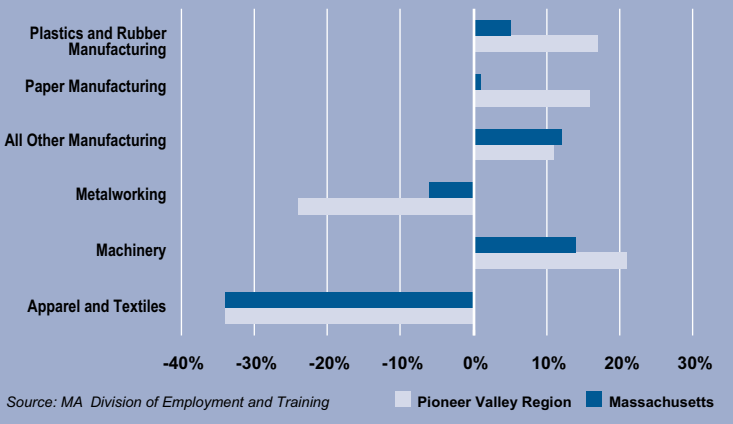


figure 10-14
Pioneer Valley Region Demographic Summary

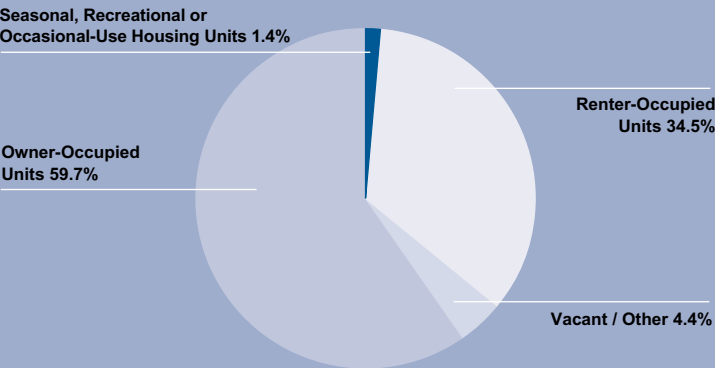
	Pioneer Valley Region			MA		
	1990	2000	Change	1990	2000	Change
Total population	688,184	695,368	1.0%	6,016,425	6,349,097	5.5%
Age (share of total)						
Under 18	23.8%	22.4%	0.6%	22.5%	23.6%	1.1%
19-24	13.2%	11.2%	-2.0%	11.8%	9.1%	-2.7%
25 to 44	31.3%	28.1%	-3.3%	33.6%	31.3%	-2.2%
45 to 64	17.6%	22.4%	4.8%	18.5%	22.4%	3.8%
65 and over	14.1%	14.0%	-0.1%	13.6%	13.5%	-0.1%
Race/Ethnicity (share of total)						
White	88.5%	83.8%	-4.7%	89.8%	84.5%	-5.3%
Black	5.4%	5.8%	0.4%	5.0%	5.4%	0.4%
Asian	1.3%	1.7%	0.4%	2.4%	3.8%	1.4%
Other race	4.8%	6.5%	1.7%	2.8%	4.0%	1.2%
Two or more races*	na	2.1%	na	na	2.3%	na
Hispanic (of any race)	7.4%	10.9%	3.6%	4.8%	6.8%	2.0%

* the category of persons with two or more races did not exist in the 1990 Census

Source: U.S. Bureau of the Census, Decennial Population Census

¹⁶ Data describing change in race/ethnic mix must be used with caution. For more information, see the Part II Introduction.

figure 10-15
Pioneer Valley Region Housing Supply



Source: U.S. Census Bureau, Census 2000

figure 10-16
Pioneer Valley Region Home Ownership

	1990	2000	Difference
Pioneer Valley Region	61.7%	59.7%	-1.9%
Massachusetts	59.5%	57.5%	-2.0%
% Over/Under State	2.2%	2.2%	0.0%

Source: U.S. Census Bureau, Census 2000

Housing

Home ownership and housing affordability are among the key social issues in any region. In the Pioneer Valley, 59.7 percent of all housing units are owner-occupied – a percentage slightly higher than the 57.5 percent rate for Commonwealth as a whole (see figures 10-15 and 10-16).

A causal factor in owner-occupancy is the cost of housing. In the year 2000, the average selling price for a home in the Pioneer Valley was \$106,000. This contrasts with the State’s average selling price of \$205,000. Although the regional figure represents an increase of 23 percent since 1996, the 2000 average selling price for the State is 48 percent higher than it was in 1996.

Regional Strengths and Competitive Advantages

The Region has many positive attributes that make it appealing to a broad range of inhabitants, and the characteristics that appeal to residents also appeal to businesses. An educated workforce, a well-developed transportation network, a high-tech telecommunications network, a broad range of educational opportunities, cultural breadth, relative affordability, and an overall small-town flavor all contribute to the valley’s appeal and, therefore, its economic potential.

Location. Just two hours from Boston and three hours from New York City, the Region serves as a centrally located and relatively low-cost alternative for firms. Workers, particularly those with young families, appreciate the benefits of living rurally while having the advantages of city life only a short distance away. The proximity of many institutions of higher education—from the University of Massachusetts to an impressive set of private institutions—enhances the cultural amenities of the region.

The Region is criss-crossed by two major interstate highways, I-91 running north and south, and the Massachusetts Turnpike going east and west. Traveling the interstate highway system puts most of the vast population of the northeastern United States within one days drive of the Pioneer Valley. Bradley International Airport, just south of the Massachusetts State boundary along I-91, is a dynamic and growing resource of airline transportation.

Travel and Tourism. Local officials are pushing a number of projects related to the tourism industry. These include a renovation of the Springfield Civic Center, a new convention center, and a \$103 million expansion of the Basketball Hall of Fame. Seasonally, the Region has unique natural attractions that draw tourists, including the fall foliage and the winter skiing season. It is also home to Yankee Candle and the Six Flags amusement park, which draw considerable tourist traffic to the Region.

Regional Economic Development. The Pioneer Valley has successfully organized collaborative regional economic development initiatives. The efforts encompass regional planning, marketing, business attraction and retention and industry-cluster development. These regional economic development partnerships have consistently involved private and public sector groups including local colleges and universities. While these collaborative economic development efforts can make markets work more efficiently – largely by providing information to key players and by seeking out and securing government subsidy for specific efforts – market forces will ultimately determine the economic future of the Region.

Challenges to Future Growth

The primary challenge to the Pioneer Valley is to diversify its economic base to provide multiple sources of future economic growth. The Region's manufacturing sector, while highly productive, cannot be the primary employment growth engine in the future. It remains to be seen what industry – or set of industries – will emerge to drive future economic development.

Regional Policy Priorities

Transportation. There are a number of urgent transportation infrastructure projects that remain unaddressed. Many of the Region's bridges, even those along the interstate system, need repair. Bradley International Airport also needs to be more fully integrated into the Region's transportation network.

Workforce training. Several barriers prevent the Region from taking advantage of current workforce training programs, including a lack of awareness and insufficient access to funding. The Region's past reliance on manufacturing employment, and the skills that support that employment, is not adequate for a high-technology industrial future. As its economic base diversifies, continually upgrading the skills of the workforce will become increasingly important.

Affordable housing. While housing costs have remained low when compared to other regions of the Commonwealth, home prices have been increasing significantly faster than wages. If this trend continues, one of the Region's key competitive advantages – its low cost of living – will erode.

Brownfield revitalization. One of the hidden constraints to economic development in the Region is the availability of land for industrial use. The Pioneer Valley has extensive brownfields that, if redeveloped, could help to alleviate this shortage. Redeveloping these contaminated land sites would also help preserve community character and improve the environment.

Linking the Region's Policy Priorities to Potential Solutions

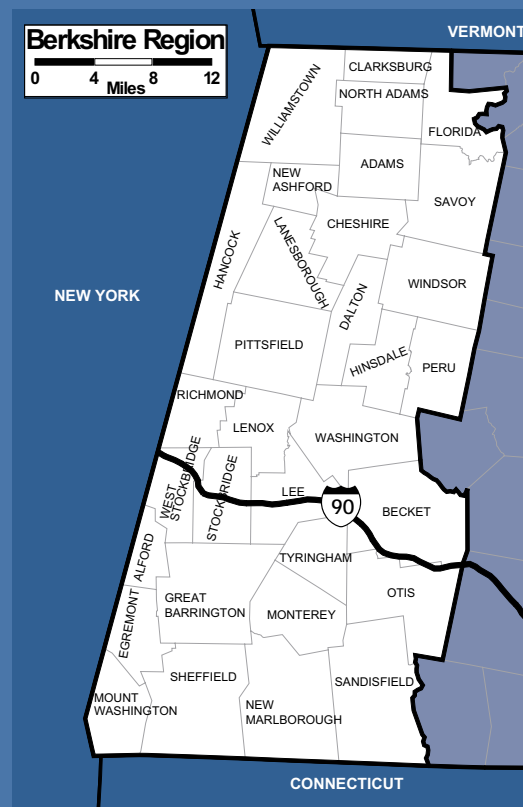
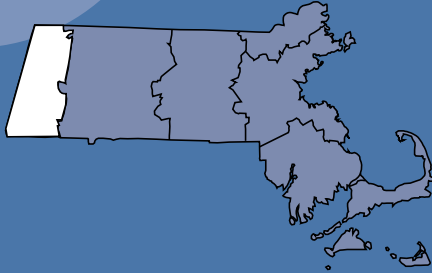
Part III provides a variety of policy options that can help address the Region's economic development priorities. Figure 10-7 shows where to find relevant options.

figure 10-17

Policy Options for Regional Priorities

Policy Priority	Policy Options, Under Desired Outcomes in Part III
Transportation	See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg. 128.
Workforce training	See "Our firms have access to the talent they need to succeed," pg.123. "Firms in our export industry clusters continually innovate to meet high value customer need effectively pg.119 See "Worker skills match the needs of business and the competitive environment," pg. 124.
Affordable housing	See "Massachusetts implements housing affordability solutions to growing businesses and their employees,"pg. 129.
Brownfields revitalization	See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg. 128.

berkshire region



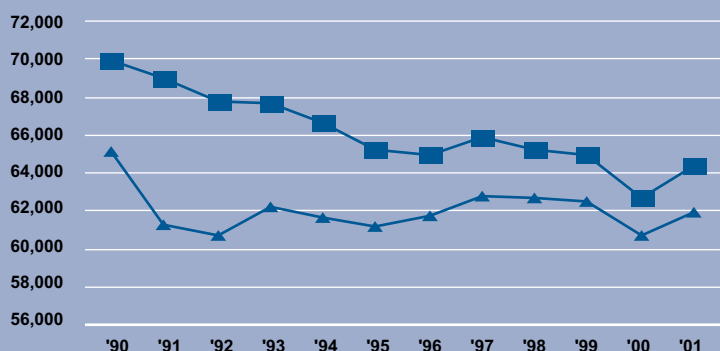
Berkshire County is set off from the rest of the Commonwealth by rolling mountains running north and south and wide valleys offering spectacular natural beauty. This Region has been home to manufacturing plants that grew up along the Housatonic River and in the Region's small industrial cities and towns. This landscape increasingly provides the backdrop for a thriving tourist industry that draws heavily upon a sophisticated, high-income audience, primarily from New York and Connecticut. These tourists come each summer to hear classical music, see world-class dance, enjoy fine art, and rejuvenate in the spas that offer alternative approaches to health and beauty. Each fall, the Berkshires

landscape explodes in color and draws people who come to view the spectacular foliage. The winter offers cozy inns, skiing, and its own getaway attractions. Especially in the southern part of the Region, more and more tourists have become part-time residents and now own second homes.

The Berkshire Region is less integrated into the social and economic fabric of Massachusetts than any other in the State. Television and radio stations broadcast from across the border. Pittsfield, its largest city, is typically included in a marketing region with Albany, New York. With neither a major airport nor rail transportation to tie it into the rest of the Commonwealth, the Massachusetts Turnpike in the southern part of the county and Route 2 in the north are the major links to the rest of the State. But like the Berkshire Mountains and Housatonic River, this Region and its economy runs north and south.

figure 11-1

Berkshire Region Labor Force and Employment



Source: Bureau of Labor Statistics, LAUS (Household)

■ Labor Force ▲ Employment

Economic Overview

The more recent industrial development of the Berkshires was based, in large part, on the invention of the electric transformer. Sprague Electric and General Electric were major employers. When it was no longer practical or economical to build large transformers in Pittsfield or North Adams, these industries moved out and the economy struggled to find a new base. Manufacturing for the plastics, paper, and defense industries then drove the local economy. With the end of the Cold War, however, the defense business lost nearly 10,000 high-paying jobs. Manufacturing employment continues to shrink here as in the rest of the State.

The growth in business services, health services, educational services, and trade over the years has not been able to replace these higher-paying manufacturing jobs. Travel and Tourism benefits the owners of many small businesses, but their employees tend to have low earnings that are absorbed by high housing costs.

One bright spot has been in the establishment of companies in the software and information systems sector. But the collapse of the IT bubble in the stock market has left the potential for these companies unclear. As the national economy recovers, the core of small IT firms in the Region may survive, but that remains to be seen.

Employment¹

Employment patterns in the Berkshires are dominated by the sharp cutbacks in its old-line manufacturing industries. Although one would expect both the workforce and employment to grow during the expansion stage of the business cycle, the Berkshires saw both decline over the past decade.

In 1990, the Berkshire's economy had a labor force of 69,900, of which 65,170 were employed. In 2001, at the end of what was the longest period of sustained economic growth in our nation's history, the workforce was approximately 64,350, with roughly 62,000 employed (see figure 11-1). What needs to be kept in mind is the dramatically different pattern – one of growth, especially after 1995 – seen in other regions and the Commonwealth as a whole during this period.

Income

Consistent with stagnating employment and the loss of well-paid manufacturing jobs, average real² wages also stagnated. While there was a small rise from 1997 on, wages grew very slowly since 1990. At the end of the decade, they averaged \$29,979, compared to \$40,127 for the Commonwealth as a whole (see figure 11-3).

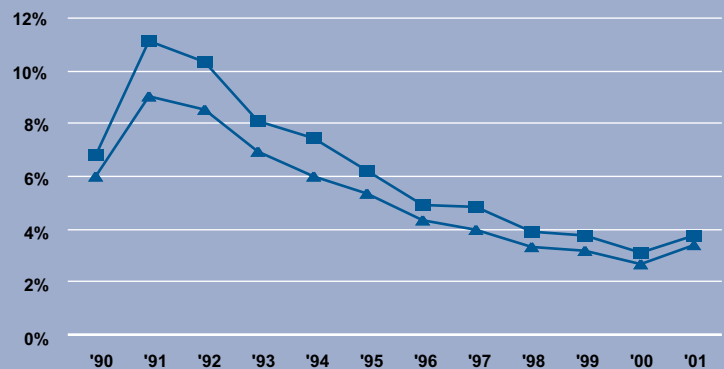
¹ The data in this section on the number of people employed, in the labor force, and unemployed are taken from the household survey. They therefore will not match the employer-based data used in other sections that report the number of payroll jobs.

² The U.S. consumer price index (CPI) was used to adjust nominal wages for the effects of inflation.

³ Employment is measured here using the Bureau of Labor Statistics, ES-202 series, which are employer reports of payroll jobs rather than household-based measures of employed or unemployed people. As a result, the numbers will differ from employment figures based on the household survey presented in other sections of the document.

figure 11-2

Berkshire Region Unemployment Rate

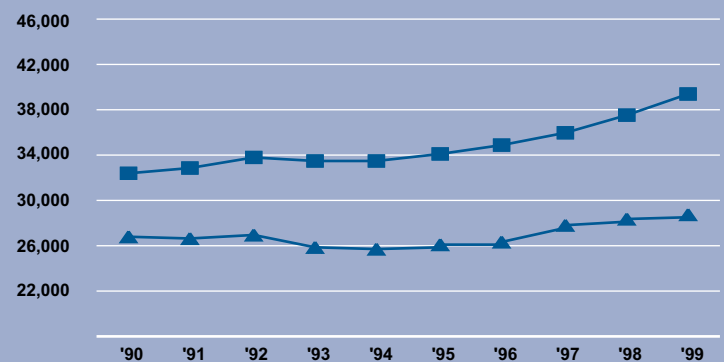


Source: Bureau of Labor Statistics, LAUS (Household)

■ Berkshire Region ▲ Massachusetts

figure 11-3

Berkshire Region Average Real Wages



Source: MA Division of Employment and Training, ES-202

▲ Berkshire Region ■ Massachusetts

figure 11-4

Berkshire Region Change in Employment, by Major Industry, 1993 to 2000

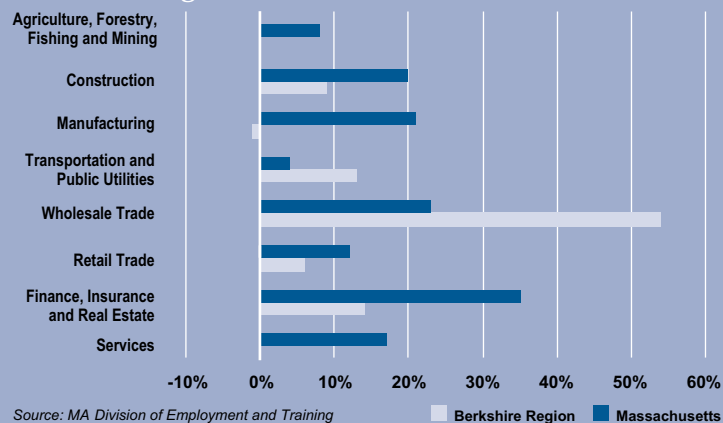


Source: MA Division of Employment and Training

■ Berkshire Region ■ Massachusetts

figure 11-5

Change in Real Average Pay, by Major Industry, Berkshire Region: 1993 to 2000



Employment by Major Industry Sector

Compared with the State economy, employment³ growth between 1993 and 2000 was slower in all categories except government and agriculture (and the actual size of the agricultural sector is rather small). There was some increase in wholesale trade in terms of number of firms and average pay. However, growth in the Region's economy lagged behind the rest of the State (see figure 11-5). Local business leaders confirm a strong economic connection to the Albany area, which had poor economic growth during this period. It appears that this connection did not help bolster the Berkshires economic base.

The most important sectors in the economy in terms of employment are health care, education, business services, and other general services (see figure 11-6). Retail trade provides many jobs that are related to the flow of tourist dollars into the Region. Manufacturing is most heavily concentrated in plastics and paper manufacturing.

figure 11-6

Berkshire Region Employment by Major Industry

	1993	2000	Percent of 2000 Total
Agriculture, Forestry, Fishing, and Mining	482	692	1.1
Construction	2,300	3,157	5.1
Manufacturing	10,184	8,927	14.4
Transportation and Public Utilities	2,188	2,407	3.9
Wholesale Trade	1,374	1,542	2.5
Retail Trade	12,310	13,646	22.1
Finance, Insurance, and Real Estate	2,308	2,393	3.9
Services	23,148	26,683	43.2
Government	1,631	2,379	3.8
Total	55,925	61,826	100.0

Source: Division of Employment and Training, ES-202

The Berkshire Region Export Sector

As explained in Chapter 2, a healthy export sector is critical to a region's economic success. The sidebar in that Chapter on "The Massachusetts Export Sector" presented six large industry clusters as the key components of the Commonwealth's export sector. These clusters were identified in earlier State policy documents and studies, specifically *Choosing to Compete*⁴ and the more recent *Knowledge Sector Powerhouse*.⁵ They include four knowledge-based clusters – Information Technology, Health Care, Financial Services, and Knowledge Creation. They also include two clusters that are less knowledge intensive: Travel and Tourism; and "Traditional Manufacturing" (manufacturing industries, such as paper, plastics and rubber, metalworking, and machinery, which are not part of the Information Technology or Health Care clusters). The discussion below uses this framework to explore the Region's export sector.

figure 11-7

Employment Change in the Commonwealth's Export Clusters: Berkshire Region, 1993 to 2000

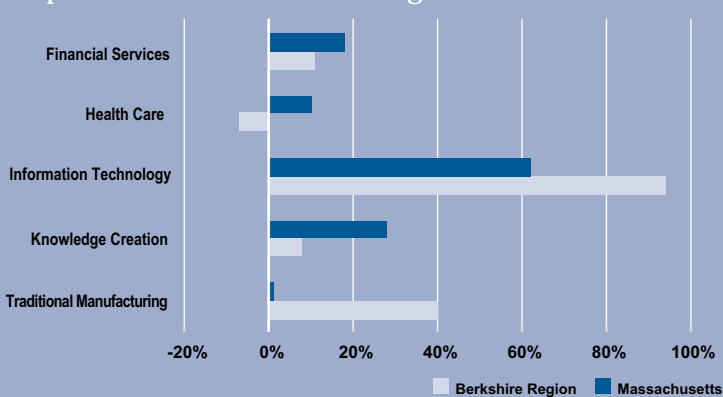


Figure 11-7 shows export cluster growth in the Region as compared to Massachusetts. When interpreting the results of our analysis, please note that the employment figures reported for these large industry clusters are not meant to represent export sector jobs. The Health Care cluster, for example, includes physicians serving the local population. A finer picture of the composition of the Region's export sector, and the extent to which the Berkshires have become part of the wider knowledge-based economy, is developed in the discussions that follow. Also, note that some of the following charts show no data for some industries in the export clusters. This does not necessarily mean that the industry is absent. Federal rules prohibit access to data that could provide information about individual firms. The lack of industry data could be due to this limitation.

Encouragingly, all export-oriented clusters, with the exception of Health Care, grew during the 1993 to 2000 expansion. Information Technology (IT) showed the most growth, nearly doubling in size. It may well be that this cluster can serve as a new growth engine for the Region.⁶ More modestly, it could help stabilize the regional economy by countering declines in other sectors.

Knowledge Creation

The Berkshires shows promise in the Knowledge Creation cluster of activities. Other than in the areas of legal and management services, all areas of knowledge creation saw their employment increase in the Region. In virtually all cases, however, this growth was at a lower rate than for the State as a whole (see figure 11-8).

Information Technology⁷

In the small but potentially dynamic information technology area, the Berkshires showed growth and promise, especially in computer services⁸(see figure 11-9). The Region did not experience discernable employment increases among manufacturers of computer hardware, communications hardware, or electrical and electronic equipment.⁹

Financial Services

The Berkshire Region exhibited employment growth in all of sectors of the financial services cluster. The most dramatic growth came in securities and exchange services, which grew by over 80 percent between 1993 and 2000 (see figure 11-10). Insurance carriers are most likely to contribute to its export base and employment in this industry expanded in the Region while declining statewide.

Health Care

Healthcare is the largest employer in almost every Massachusetts Region. Berkshire County is no exception. But there is a difference between providing health care for the resident population and providing health-related products and services to people outside the Region to generate income. There is no dis-

figure 11-8

Knowledge Creation: Change in Employment, Berkshire Region: 1993 to 2000

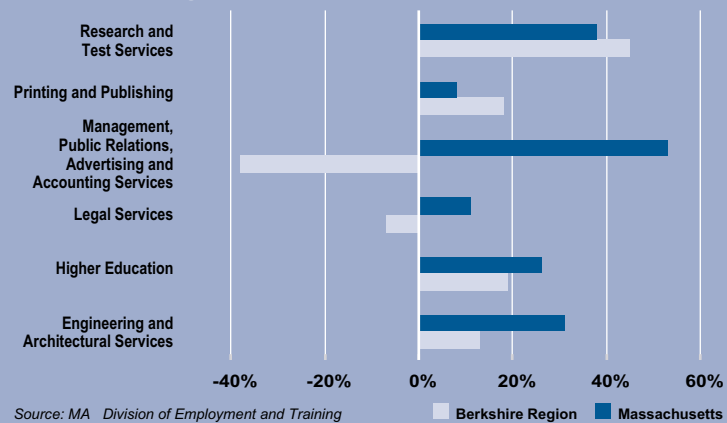


figure 11-9

Information Technology: Change in Employment, Berkshire Region: 1993 to 2000

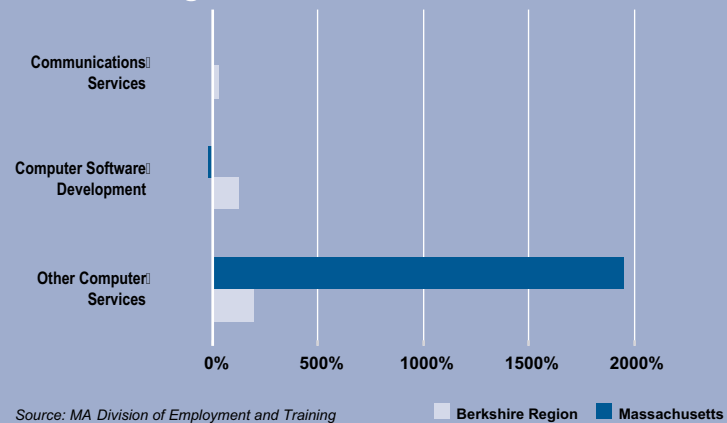
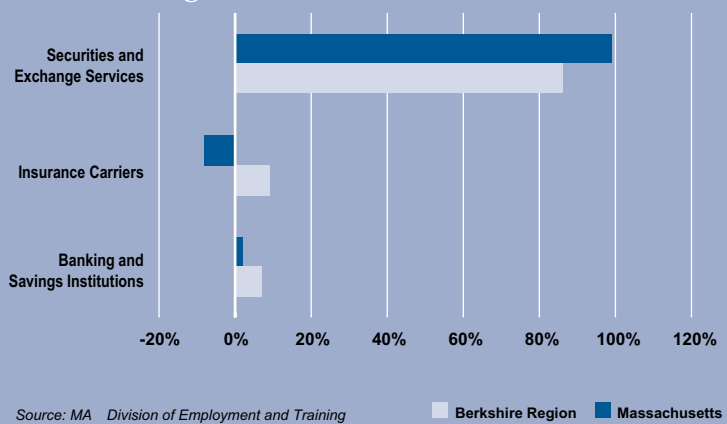


figure 11-10

Financial Services: Change in Employment, Berkshire Region: 1993 to 2000



⁴ Massachusetts Executive Office of Economic Affairs and the University of Massachusetts, (Boston, 1993).

⁵ Robert Forrant, Philip Moss, and Chris Tilly, (Boston: UMass Donahue Institute, 2001).

⁶ Recent research provides some reason for optimism. Between 1993 and 2000, "technology enterprise" employment grew 132 percent and annual payroll, 190 percent. See Steven Ellis and Rebecca Loveland, *Technology Enterprise in Berkshire County: Economic Analysis*. UMass Donahue Institute, February 2002.

⁷ Communications Services comprised three business units in 2000 and Other Electronic and Electrical Equipment comprised seven units in 2000. Data describing these sub-groups in the Berkshires are not available. The Massachusetts Division of Employment and Training suppresses data when there are fewer than three business units in a 4-digit SIC class, to preserve employer confidentiality.

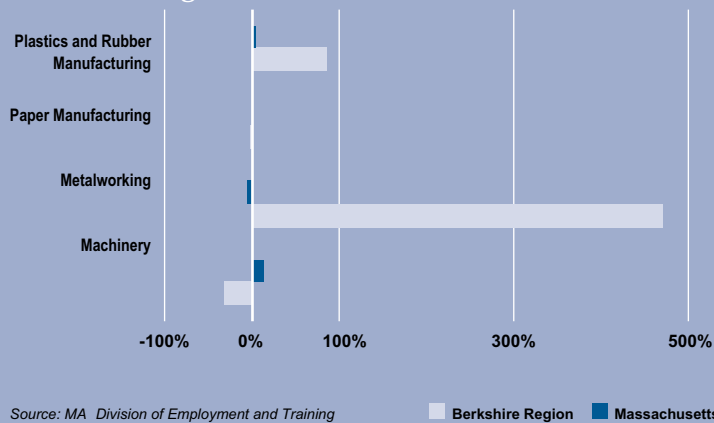
⁸ The KSP Subgroup (of the IT Group) "Other Computer Services" comprises the following 4-digit SIC's:

7373 Computer integrated systems design; 7374 Data processing and preparation; 7375 Information retrieval services; 7376 Computer facilities management; 7377 Computer rental and leasing; 7378 Computer maintenance and repair, and 7379 Computer related services not elsewhere classified.

⁹ The Massachusetts Division of Employment and Training suppresses data for these industries to preserve employer confidentiality.

figure 11-11

Traditional Manufacturing: Change in Employment, Berkshire Region: 1993 to 2000



There is no discernable activity among manufacturers of apparel and instruments.¹¹

figure 11-12

Berkshire Region Demographic Summary

	Berkshire Region			MA		
	1990	2000	Change	1990	2000	Change
Total population	139,352	134,953	-3.2%	6,016,425	6,349,097	5.5%
Age (share of total)						
Under 18	22.7%	22.4%	-0.4%	22.5%	23.6%	1.1%
19-24	10.9%	8.4%	-2.5%	11.8%	9.1%	-2.7%
25 to 44	29.8%	26.4%	-3.4%	33.6%	31.3%	-2.2%
45 to 64	19.7%	24.9%	5.2%	18.5%	22.4%	3.8%
65 and over	16.9%	17.9%	1.1%	13.6%	13.5%	-0.1%
Race/Ethnicity (share of total)						
White	97.0%	95.0%	-1.9%	89.8%	84.5%	-5.3%
Black	1.8%	2.0%	0.2%	5.0%	5.4%	0.4%
Asian	0.7%	1.0%	0.3%	2.4%	3.8%	1.4%
Other race	0.5%	0.8%	0.3%	2.8%	4.0%	1.2%
Two or more races*	na	1.2%	na	na	2.3%	na
Hispanic (of any race)	1.0%	1.7%	0.7%	4.8%	6.8%	2.0%

* the category of persons with two or more races did not exist in the 1990 Census

Source: U.S. Bureau of the Census, Decennial Population Census

cernable activity in the medical instruments, drugs, and pharmaceuticals industries.¹⁰ This is an industry where the Commonwealth generates significant income through exports. Health services have also declined in terms of employment as the population has decreased. The area of drugs and pharmaceuticals, increasingly related to biotechnology, does not exist in any significant way in the Region. What does exist, however, is a thriving trade in alternative health therapies and spas. This is an interesting aspect of the tourist trade. Many of the upscale visitors to the Berkshires come to be treated or to enjoy alternative health activities and treatments. This is one of the potential growth industries in the Region, and one that can generate substantial amounts of regional income.

Traditional Manufacturing

As discussed above, the Region lost a significant number of manufacturing jobs in the recession of the early 1990s, and the

sector continued to shed jobs during the recovery running from 1993 to 2000. The real bright spots in manufacturing have been precision metalworking and plastics. Both of these segments of the economy have done well. The Berkshire Plastics Network or Cooperative is a model for other industries. Through a consortium, companies with specialized knowledge and skills can be matched up with a wide variety of inquiries. The result is more productivity and more business for everyone.

The same is true in metalworking. Like most of Western Massachusetts, the Region is home to many talented craftsmen who have worked with precision metal manufacturing for many years. While the nature of the technology has been changing to include more computer-controlled machines, there is still a base of skill and design necessary in industry available in the Region (see figure 11-11).

Travel and Tourism

The growing impact of the Travel and Tourism cluster in the Berkshires can be seen in the experience of the Region's hotel industry. In the year ending June 2000, hotels and motels in Berkshire County grossed an estimated \$77.6 million in room sales, up 27 percent over the year ending June 1997.¹² These expenditures define a conservative estimate of traveler spending. This is because total spending typically includes meals, retail purchases, and attractions, in addition to spending on accommodations.

Room sales growth, which lagged behind statewide growth rate of 37 percent, supported limited growth in the industry. Between 1997 and 2000, the number of hotels increased 1 percent, to eighty-two. Employment expanded 2 percent, to 1,995 workers. Pay in the industry is low and frequently offers mostly part-time jobs. Yet average real wages increased 26 percent in this period, to \$19,636.

Demographics

Population

The Region continues to lose population, having declined by 3.2 percent since the 1990 Census. The shape of this population becomes clearer with an examination of age distribution and racial composition (see figure 11-12).

Resident Age Distribution

The average age of the Region's residents rose over the past decade. This is due partly to out-migration of the younger generation and partly to the aging of those who have stayed. A lack of good-paying jobs, social opportunities, and affordable homes makes the retention of young people particularly difficult.

Since 1990, the size of all age groups younger than 45 has declined. The most dramatic decline has been in the 19-24 group,

which declined by 25 percent. The 25-44 age group, often cited as the group being the most economically dynamic, declined by over 14 percent (see figure 11-12). The loss of significant numbers of younger residents of working-age represents a serious workforce development challenge, and a long-term obstacle to growth. As older members of the regional workforce age and begin to retire in coming years, the significance of these population losses will become more apparent.

While the Region's population has a smaller proportion of minorities than the rest of the State, this is changing. In fact, the entire decline in the Berkshire population occurred among the White racial group. All of the non-white racial groups—Black, Asian, and all other racial groups—grew in size. This includes a sizable increase in the Hispanic population¹³ (see figure 11-12).

Housing

Market dynamics have placed pressures on middle-income family home ownership. While in 1990 the owner-occupancy rate in the Berkshires significantly exceeded that of the State as a whole, it fell below the statewide average over the past ten years (see figure 11-13). Housing costs vary within the Region with higher costs in the southern part of Berkshire County driven by high demand for second homes.

Regional Strengths and Competitive Advantages

Natural beauty and an exceptional cultural base have been the key growth engines in the Region's export sector over the past decade, and this is the way things are likely to continue. The single most important attribute this Region possesses is its fine quality of life and natural environment.

However, the Berkshires have no special advantages over other regions when it comes to information technology or any of the cutting-edge applications of scientific breakthroughs. It lacks a major research university and it has no special access to major markets. Its workforce is aging and declining in number. Given its low real average wages compared with the rest of the State, the cost of housing is high. These are significant barriers to knowledge-intensive economic growth in the Region.

Looking forward, Berkshire County must build upon its principal strengths. These include high quality of life, natural beauty, and outstanding cultural resources.

figure 11-13

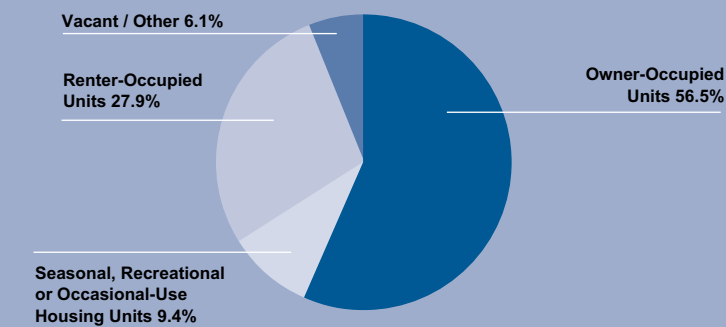
Berkshire Region Home Ownership

	1990	2000	Difference
Berkshire Region	66.4%	56.5%	-9.8%
Massachusetts	59.5%	57.5%	-2.0%
% Over/Under State	6.9%	-1.0%	-7.9%

Source: U.S. Bureau of the Census, Decennial Population Census

figure 11-14

Berkshire Region Housing Supply



Source: U.S. Bureau of the Census, Decennial Population Census

¹⁰ Ibid.

¹¹ Ibid.

¹² Estimate based on FY00 State room occupancy tax collections, which are levied at 5.7 percent of the room rate.

¹³ Data describing change in race and ethnicity must be used with caution. For more information, see the Part II Introduction.

Challenges to Future Growth

The Berkshires possess a mosaic of economic and social elements that do not optimally support economic development. There is a legacy of industrial development that left serious environmental problems amid great natural beauty. There are wealthy stakeholders who own property and invest in the Region, but are not full-time residents. While they bring income into the local economy, they also bid up the price of housing, particularly in the southern portion of Berkshire County, making it unaffordable for many households. The Region offers outstanding music, art, and dance, but lacks the social opportunities that will attract and hold young families and retain more highly mobile and tech-savvy young professionals.

This mosaic has implications for retaining a productive workforce. As the population continues to age and fewer young people are attracted to the area or choose to remain, opportunities for growth diminish. While young professionals are drawn to the natural beauty of the area, they also are concerned about costly housing, inadequate public transportation, and limited social opportunities.

Lack of accessibility. While the Massachusetts Turnpike provides an important connection to the east and west, the north-south transportation link does not meet the Region's needs. Nor does that link provide easy access to key markets or centers of science or technological research.

Unskilled workforce. The Region does not have an attractive base of young, talented, and well-educated workers. This is a major factor in business investment and location decisions and represents a significant competitive disadvantage.

Depressed urban core. It is often a region's "urban core" that offers young people and families the social opportunities they seek. Many of the Berkshire's cities – particularly Pittsfield – are under serious fiscal strain. While it may be tempting to try to locate large manufacturing facilities in these urban areas in the short term, doing so will not make these cities more attractive to the younger, more highly skilled workers the Region requires to grow. The successful remediation and redevelopment of vacant industrial space, such as the GE facility in Pittsfield, will be essential to the future growth of its urban centers. Improving the attractiveness of cities to highly-skilled younger workers will also be critical to the successful economic restructuring of these communities. The opening of facilities like the Massachusetts Museum of Contemporary Art (Mass MoCA) in North Adams is a good start.

Distance from Boston. The Region's relatively remote location remains both an economic and political disadvantage. Because of its remote location, the Berkshires remain isolated from the eastern Massachusetts economy and its recent growth. That isolation con-

tributes to an historic sense that State development strategies are not always relevant to the Region.

Regional Policy Priorities

The Region has a number of important issues to address. In general, the issues should be taken up at the local and regional levels. Regional participation is important to avoid the "not in my backyard" syndrome.

Urban development. Given resistance to development in its more rural areas, there may be an opportunity to revitalize and redevelop those cities in the Region that both desire and can accommodate economic development.

Environmental preservation. Environmental preservation and cleanup are high on the list of priorities. Though this issue has received attention over the past decade, there is much work yet to be done.

Affordable housing. Providing affordable housing is especially difficult, given that lower- and middle-income housing carries with it the burden of higher public budgets without adequate tax-revenue offsets. Where to encourage housing development and what type of development is best are questions that must be addressed locally. The wise use of capital budgets for improving sewer, water, and roads will greatly influence where development takes place. Likewise, updating outmoded zoning ordinances would aid housing development.

Transportation infrastructure. Air and commuter rail service should link this Region to Boston and other major cities. Some key roadways have been improved, but additional effort is needed.

Attracting professionals. Attracting and keeping young professionals and families is essential. Urban development, improvements to public education, and the enhancement of cultural and social opportunities geared to young singles and families alike can help to stop the exodus of younger residents and workers from the Region.

Regional planning. "Bigger is better" might not be an appropriate theme for Berkshire County. Instead, it may be an ideal place to achieve a smaller, well-diversified economy based on sustainable development. Natural beauty, a fine reputation among upscale consumers, and a steadily declining industrial base all suggest that the wisest approach may be to recruit firms that can find competitive advantage in the Berkshire's idyllic environment and loyal base of well-to-do consumers. Evolving regional collaboration will help define a common vision and the coordinated actions needed to implement sound regional solutions.

Linking the Region's Policy Priorities to Potential Solutions

Part 3 provides a variety of policy options that can help address the Region's economic development priorities. Figure 11-15 shows where to find relevant options.

figure 11-15

Policy Options for Regional Priorities: Berkshire Region

Policy Priority	Policy Options, Under Desired Outcomes in Part III
Urban development	See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg. 128. See "A Strong export industry clusters throughout Massachusetts" pg. 118
Environmental preservation	See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg. 128.
Affordable housing	See, "Massachusetts implements housing affordability solutions to support growing businesses and their employees," pg. 128.
Transportation infrastructure	See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg. 128.
Attracting professionals	See "Our firms have access to the talent they need to succeed," pg. 123. See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg. 128. See "Access to affordable, competitive broadband options throughout the Commonwealth." pg. 126 See "Strong export industry clusters throughout Massachusetts." pg. 118 See "Reduced disparities in entrepreneurial opportunities." pg. 120
Regional planning	See "Massachusetts is a leader in implementing development strategies that provide a high quality of life," pg. 128. See "Strong export industry clusters throughout Massachusetts." pg. 118

toward a shared vision for Massachusetts in the new economy

Choosing to Compete proposed a vision for Massachusetts that went beyond the traditional economic development objectives of job growth and economic prosperity to include regional equity and broad economic opportunity. This vision also highlighted the importance of a good quality of life (see box, *The five elements of the “Choosing to Compete” vision*). A central theme in *Choosing to Compete* was that Massachusetts could achieve these objectives by enhancing the competitiveness of the Massachusetts economy in the national and global marketplace.

The five elements of the “Choosing to Compete” vision

- A rising standard of living
- Job growth
- Regional equity
- Broad economic opportunity
- A high quality of life

This chapter re-examines the vision articulated in *Choosing to Compete*. It will assess the Commonwealth’s progress using the benchmarks proposed in that document. While this benchmarking is instructive, Chapter 2 highlights several dynamics that enhanced our competitiveness and eased the State’s adaptation to the dramatic structural changes in the economy that took place during the 1990s. These factors also require us to re-examine that vision as we develop a new strategic framework for the New Economy.

Given the increasing importance of place and workforce mobility, as highlighted in Chapter 2, improving the quality of life in the Commonwealth has emerged as an overarching goal. Broadly defined, “quality of life” includes jobs, prosperity, and regional opportunity, as well as environmental sustainability, a healthy and safe citizenry, and a strong civic culture. This chapter will develop the foundations of a new vision aimed at enhancing quality of life in all corners of the State.

With such a vision in place, we can then turn to the development a strategic framework for economic development in the Commonwealth. This framework will focus thought and action on policy options that support this vision and our prosperity over the long term. This vision and related strategic framework must be shaped by a review of our previous policy initiatives and their impact on economic growth and competitiveness.

Building Competitive Advantage: A Look at Economic Progress and Challenges Over the Past Decade.

As highlighted in Chapter 2, Massachusetts’ recovery from the deep recession of the early 1990s and its adaptation to dramatic structural changes in the economic environment is impressive. In many important ways Massachusetts has been a leader in a shift to a knowledge-driven, technology-led, and increasingly global economy. This transition has had significant impacts on firms,

workers, families and communities, which can be evaluated against the vision put forth in *Choosing to Compete*. The following analysis highlights the State's progress and underscores remaining challenges.

A high standard of living

The Commonwealth has made significant progress in improving the standard of living for many of its citizens. During the 1990s, real per capita personal income – that is, income adjusted for inflation – exceeded overall U.S. levels. The growth in income remains especially strong in our knowledge-based export industries.

While significant progress was made, a number of important challenges remain. Most notably, as Figure 3-2 shows, median real household income in the Commonwealth remains flat. This indicates that the middle-income wage earners have not shared in the gains of the past decade. A major factor limiting the growth of average and median real income measures was a sharp rise in housing prices. Homeowners have benefited from this appreciation, and standard income measures fail to capture that gain. Rising home prices, however, have seriously eroded the prosperity of non-homeowners, making it difficult for many Massachusetts workers to afford a first home.

Job growth

Choosing to Compete targeted employment growth and low levels of unemployment as key objectives. Employment data indicate that Massachusetts has been successful in meeting these goals. Despite severe adverse shocks to our export sector in the early 1990s, as seen in job losses, unemployment declined steadily over the decade, going from well above to well below the national average (see sidebar *Goal: Job Growth*, pg.34). Employment growth was also brisk, rising at essentially the national rate.¹

Looking forward, the declining population in the 18-24 age cohort presents a different challenge. This age group represents a critical mass of future workers and a base of potential entrepreneurs. How well the State responds to this coming demographic decline will have a major impact on our economy for years to come.

Strong regional economies within the State

Choosing to Compete emphasized the need for the State to build strong local economies by capitalizing on unique regional strengths. That all regions shared in the declining rates of unemployment suggests important progress. However, there have been clear disparities in wage and employment growth across regions (see sidebar *Goal: Strong Regional Economics*, pg. 37 and 38). Greater Boston posted impressive gains, but the Pioneer Valley,

¹ Since 1970, employment growth in the Commonwealth has lagged the national rate by 3/4 of a percentage point; in part because our employment growth has been slower, unemployment has averaged 1/2 of a percentage point below the national rate. Despite the severe hit to our major export industries at the beginning of our decade, our economy has significantly outperformed these long-term benchmarks.

Goal: High Standard of Living

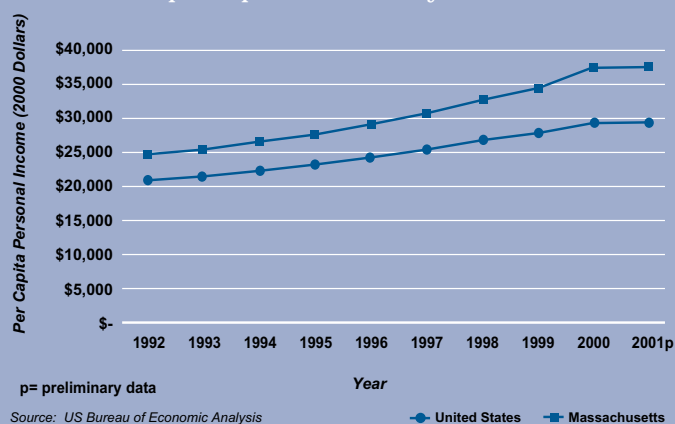
The vision outlined in *Choosing to Compete* included a high standard of living, as defined by high per capita income relative to the regional cost of living. The state sought to reduce the cost of doing business in the state, increase private investment and improve the capabilities of the workforce. *Choosing to Compete* outlined many specific actions that the state could undertake to realize its vision, including: promoting fiscal stability, modifying business regulations, streamlining the permit approval process, promoting private investment and technology transfer, and reducing business costs.

Per capita income exceeds U.S. average...

Since 1992, real per capita personal income in Massachusetts has risen 24 percent, compared to the national average of 14 percent. The per capita figures are stated in real 2000 dollars, using the US CPI for urban consumers.

figure 3-1

Real income per capita rose smartly



...but median income was stagnant during the 1990s.

Census Bureau data shows that, between 1989 and 1999, median real household income increased slightly in Massachusetts while the national average increased at a faster rate.

The rising per capita personal income and the flat median household income indicate that most Massachusetts households earn the same income today as they did in 1993 while higher-income households are earning significantly more.

(Continued on next page)

Goal: High Standard of Living (continued)

High housing costs impact the Commonwealth

Housing affordability is a large factor in the cost of living and is an important determinant in many workers' decisions to relocate. Recent prosperity has contributed to the rising price of homes, which in Massachusetts may offset any potential gains in the increase of the per capita personal income. From 1996 to 2000, the median price of single-family homes in Massachusetts increased 47 percent, from \$153,000 to \$225,500. In comparison, national figures increased 24 percent, from \$131,000 to \$162,000.

The graph highlights the rising "affordability gap" between median family income and the income required to purchase a home in the metropolitan Boston area. As proposed by the U.S. Department of Housing and Urban Development, the price of a home should not exceed 2.5 times a household's annual income. The median home price in the region has increased to over \$300,000 in 2000. The difference between median family income and the income needed to purchase a median-priced home has also increased substantially. In 1993, the "affordability gap" equaled 37 percent of median family income. In 2000, it equaled 92 percent of median family income.

Homes are often the most significant source of household wealth, so the rise in home prices benefited Massachusetts homeowners. However, the high price of housing resulted in home ownership rates in the Commonwealth falling from 62 percent in 1996 to 60 percent in 2000. Over the same period, national home ownership rates increased from 65 percent to 67 percent.²

figure 3-2

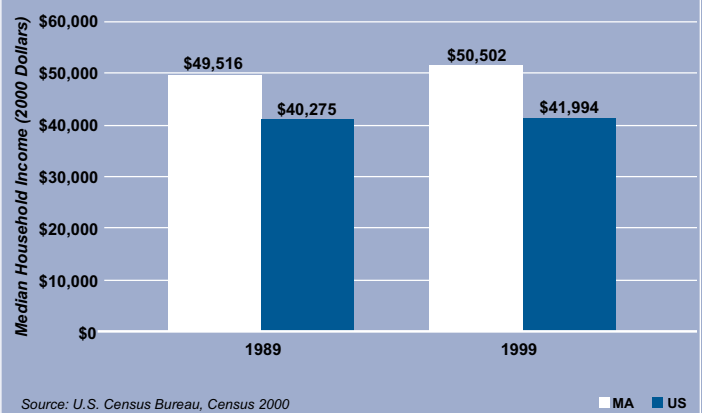
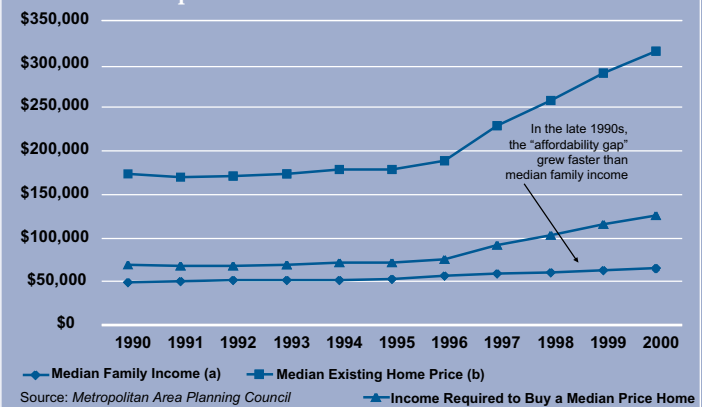
Real median household income

figure 3-3

Housing Affordability Trends in the Metropolitan Boston Area

the Berkshires, and the Southeast regions had a far more difficult decade. The sharp decline in the number of young adults, and projected slow-growing workforces in all regional economies, also portends further challenges to promoting economic growth and entrepreneurship across the Commonwealth.

Broad economic opportunity

Choosing to Compete proposed a vision that promoted broad economic opportunity for all. While all population groups have seen the benefits of increased employment, African-Americans, in particular, did not fully participate in the Commonwealth's robust growth during the 1990s. Unemployment in many cities also remains chronically high, running 50 percent above the statewide average in cities like Fitchburg, Lawrence, Springfield, Fall River, and New Bedford. Many communities throughout the Common-

wealth continue to have limited access to affordable high speed internet service. Thus, while overall economic progress has been significant, extending economic opportunity to all Massachusetts regions and communities remains a significant challenge (see sidebar, *Goal: Broad Economic Opportunity*, pg.38).

A high quality of life

Choosing to Compete insisted that economic development need not come at the price of environmental degradation. While many see economic and environmental goals at odds, the document promoted a vision in which the two objectives were compatible. The results achieved over the course of the past decade are a testament that such progress is possible (see sidebar, *Goal: A High Quality of Life*, pg.41). A more collaborative approach to business and environmental regulation, in particular, resulted in enhanced

pollution control. Success has been accompanied by new challenges, such as sprawl. If not addressed, these new challenges threaten the essential quality of life that is New England and uniquely Massachusetts.

A review of the previous decade from the perspective of the vision developed in *Choosing to Compete* is instructive. Much has been accomplished in achieving that vision, but significant challenges remain. Before moving forward, however, we must understand the role of government in supporting economic competitiveness. In particular, we need to see how government can contribute by participating in the entrepreneurial networks highlighted in Chapter 2.

Developing a Policy Framework: Understanding the Role of Government

Choosing to Compete emphasized the importance of a shared leadership role for State government. The Commonwealth, it declared, had to be “an effective economic development partner with local and regional interests throughout the State, providing the incentives and assistance to promote competitiveness”.³

The economy has since changed in ways that have significantly increased the importance of this partnership with business and with non-governmental organizations and other levels of government. The relationship between business and government in the past has often been adversarial. In today’s increasingly networked, knowledge dependent economy, we need far more flexibility and cooperation.

Building a Vision for the New Century: Understanding the New Economic Landscape

To develop a shared vision for the Commonwealth’s future, we must identify the forces that will influence the State’s future economic prosperity. As highlighted in Chapter 2, four dynamic factors are likely to shape the competitive landscape going forward:

The knowledge worker - The increasing technological demands on workers points to the on-going importance of developing workforce skills. This is not only true for workers shifting to the expanded service sector, but for those employed in manufacturing as well. The need for upgrading skills is an ever-increasing challenge for both business and government. It is a challenge that extends across the lifecycle – from early childhood and K-12 to higher education – and to the need for lifelong education and training. An effective partnership between business and government is required to meet these education and training needs and to insure that Massachusetts remains on the frontier of innovation.

² Massachusetts Technology Collaborative, *Index of the Massachusetts Innovation Economy*, 2001. p.56

³*Choosing to Compete*, p.30.

Goal: Job Growth

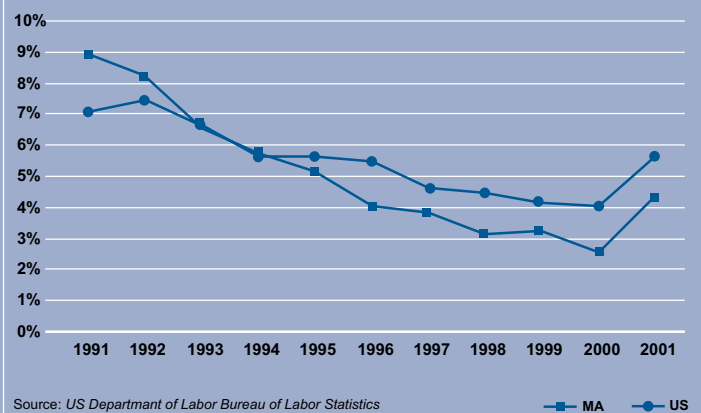
When *Choosing to Compete* was published in 1993, unemployment in Massachusetts was near an all time high. *Choosing to Compete* set out a strategy to stimulate job growth in the state by encouraging diversification of markets, products and companies in the economy. The strategy outlined a number of actions to increase employment, including the reduction of business costs, the promotion of private investment and technology transfers, and use of trade missions and export promotion programs.

Unemployment declined significantly...

The jobless rate fell far faster in Massachusetts than in the nation over the previous decade, falling by 48 percent from its high in 1991.

figure 3-4

Unemployment Rates



...but job growth exceeded labor force growth

Over the last decade, jobs in Massachusetts grew faster than the labor force, resulting in shrinking unemployment rates. Between 1992 and 2001, the Massachusetts labor force grew 4 percent. During the same period, the number of jobs in the Commonwealth increased 19 percent. By 2000, the state had more jobs than current or potential workers in its labor force. Some of these extra jobs were filled by Massachusetts residents holding multiple jobs. Commuters from other states also filled some of the jobs not filled by Massachusetts residents.

(Continued on next page)

Goal: Job Growth (continued)

New jobs were concentrated in the service sector

Most of the job growth in the 1990s emerged from the services sector. Between 1991 and 2001, the services sector employment reached 1.2 million, an increase of 38 percent. Employment in manufacturing decreased 13 percent during the same period.

The service sector now employs 37 percent of the state's workforce, up from 32 percent in 1990. In comparison, the manufacturing sector now employs 13 percent, down from 17 percent in 1990. As noted in *Knowledge Sector Powerhouse*, "Manufacturing's falling share of employment reflects both a shift in output from goods to services and reorganization of manufacturing production in ways that use fewer workers."⁴

figure 3-5

Labor force and job growth

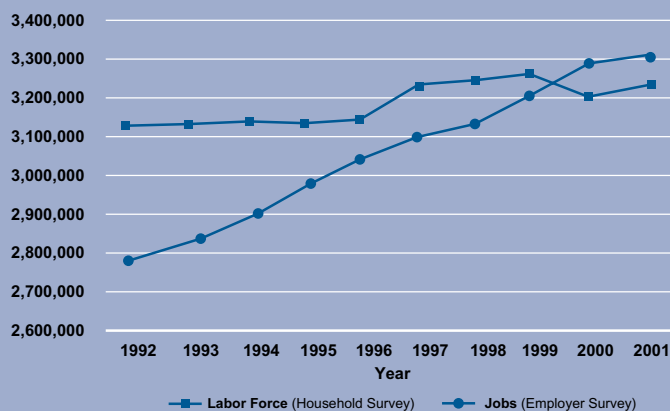
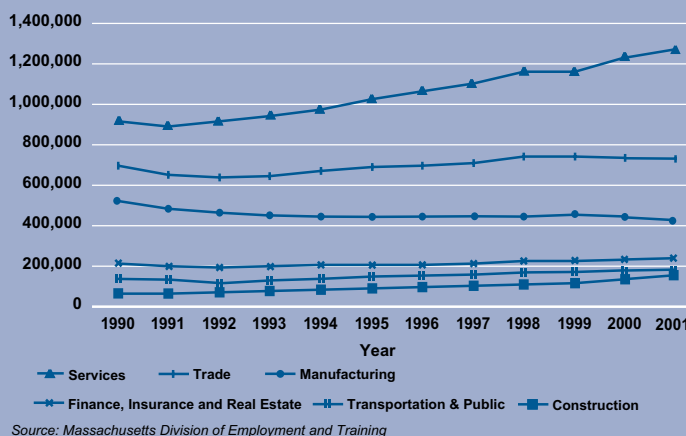


figure 3-6

Change in major employment sectors



This partnership must focus on science and technology as an essential building block of the evolving knowledge worker. Basic education, widespread access to affordable and high quality higher education, ready access to incumbent worker training programs, and systematic advances in science and technology form the core elements of a statewide vision for investing in human capital.

The networked economy - Economic trends in the U.S. and Massachusetts suggest that companies are seeking greater flexibility for themselves, their partners, their customers, and their government. The pace of technology as well as employment and migration patterns suggest that the large monolithic corporation is giving way to a set of dense, rich networks of companies and individuals that offer resources and opportunities. These economic networks are the entrepreneurial infrastructure of our export industry clusters and include firms, government agencies, academic institutions, industry associations, financial institutions, and a multitude of specialty providers. Information technology, particularly the Internet, has tremendously leveraged the exchange capacity of networked entrepreneurship. Increasingly, the role of government is to act as the convener of interests, helping establish links in this dense network of resources and opportunities.

The global marketplace - Advances in information and transportation technologies, combined with increased opportunities for trade have opened enormous new commercial frontiers. This market fusion changed the entire framework for economic exchange between regions, both internationally and within nations. The role of knowledge in production has become a truly transnational phenomenon. This creates increased opportunities as well as needs. To effectively compete, states and regions must place increased emphasis on building networks and clusters that trade outside the region. States and regions must also place increasing emphasis on infrastructure improvements, broadband deployment, and regional security.

The increasing importance of place - The mobile knowledge worker, who has more options on where to live than ever, is increasingly drawn to the physical and cultural amenities in a state. Given the strong tradition of "home-rule" in Massachusetts, the importance of place expands the need for state and local governments to work in partnership with firms and citizens to preserve and strengthen the quality of life in local communities. This trend underscores the economic importance of balancing growth with environmental sustainability.

A Shared Vision for Massachusetts in the New Economy

The current economic environment invites a re-examination of the Commonwealth's goals and objectives for economic development.

⁴ Robert Forrant, Philip Moss, and Chris Tilly, *Knowledge Sector Powerhouse* (Boston: Donahue Institute, University of Massachusetts, 2001).

It takes into account the five original goals outlined in “*Choosing to Compete*” as well as new objectives that emerged in the ensuing decade. This vision must then be realized through a policy framework suited to a knowledge-based economy. Ultimately, the priorities of economic development policy, as well as the composition of performance indicators, must be the product of a thorough political discussion, and defined through ongoing engagement with the public, the business community, and policy-makers.

While the economic landscape underwent dramatic shifts in the past decade, the bottom line for the people of Massachusetts continues to be a high quality of life. This objective broadly defines citizens not only as workers, but also as parents, students, neighbors, and stakeholders in the full range Massachusetts institutions – from its universities to its farms and firms. As in the past, maintaining a high quality of life requires a constant effort to balance the costs and benefits of economic growth, with special attention to regional distributions and the breadth of economic opportunity. Yet people and firms are more mobile today than ever before. *For this reason, an enhanced quality of life emerged as a necessary investment in the future growth prospects for the Commonwealth.*

Quantifying progress toward economic development goals is a challenging task. This is particularly so when considering the level of overlap and linkages between various objectives. The new vision and measurement of state economic performance should include a series of indicators that capture progress towards the achievement of individual goals. Measurement should also acknowledge the complementary, and potentially contradictory, relationship between goals. For instance, job growth needs to be understood within the context of educational opportunities and workforce development. Industrial expansion must be balanced against sustainability and environmental considerations.

The vision must bring together the lessons of the past decade and the continued imperatives for a competitive Massachusetts. The vision proposed for the State’s business leaders, policymakers, and citizens incorporates the first four elements of *Choosing to Compete* and includes three new key elements – environmental sustainability, healthy and safe citizens, and a strong civic culture. Collectively, these elements form the core of a new vision for economic competitiveness centered on the overarching goal of a high quality of life.

An Overarching Goal: High Quality of Life.

Economic development sits at the nexus of a broad array of quality of life issues that are cultural, social, and communal in nature. Progress in all these areas is not only a basic, but a justified expectation of our citizens. It has become an integral *competitive* factor that underlies the success of our whole economic development strategy. In many ways, quality of life is a meta-goal, incorporating all of our objectives for economic development and requiring a

comprehensive set of indicators to accurately represent the State of affairs for our citizens and their communities.

Key Elements: A High Quality of Life

High and rising standard of living

Job growth

Strong regional and community-based economies

Broad economic opportunity

Environmental sustainability

Healthy and safe citizens

Strong civic society

A high and rising standard of living - This is defined as high per capita income relative to regional costs of living. The Commonwealth has made important progress as evidenced by gains in per capita income. However, the rising cost of living in Massachusetts, driven in large measure by dramatic increases in housing prices, has undermined efforts to raise the standard of living of our residents. Per capita and median household income measures are both important. Rising values for both indicate a widely shared rising standard of living.

Performance Indicators: Increasing average and median personal real income – both per capita income and the income of the middle-rung worker, after adjusting for changes in the cost of living.

► **Job growth** - This goal incorporates policies that encourage the development of quality, high-income positions in the State and, of equal importance, developing and attracting the human capital necessary for vibrant economic growth in the new knowledge-based economy. The Commonwealth must also develop measures that help attract and retain college graduates as a means to augment the supply of workers and potential entrepreneurs in the 18-24 cohort.

Performance Indicators: Employment growth and the unemployment rate in the State. Employment growth in export industry clusters.

► **Strong regional and local economies** - Focused attention must be paid to ensure that economic development takes place throughout the Commonwealth. These efforts must leverage unique strengths and address the particular weaknesses of individual regions. There must be a sustained process of strengthening regional, national – and of particular importance – international linkages that are becoming critical variables in determining economic success.

Performance Indicators: Regional employment levels, employment growth, unemployment rates, and per capita and median real income are the standard measures. Attention should also be given to digital and physical infrastructure growth, and encouragement of innovation and technology centers supporting regional export clusters.

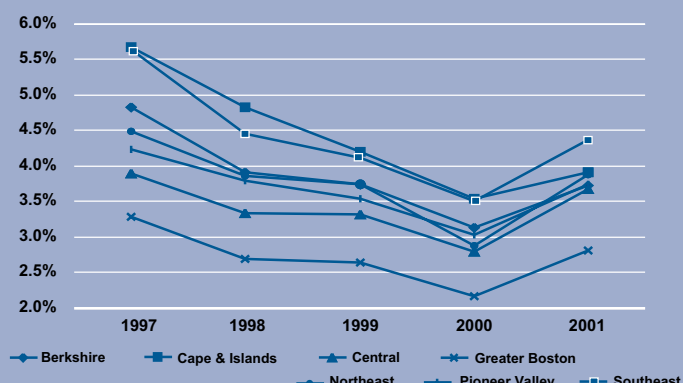
Goal: Strong Regional Economies

A major emphasis of *Choosing to Compete* was to insure that economic development planning occurred at regional and local levels. The goal was to create vibrant regional economies that provided jobs and economic opportunity throughout the Commonwealth. Specific actions that the strategy included the delivery of regionally responsive economic development services, the formation of local and regional economic development strategies, and the creation of region-specific training programs.

Unemployment rates declined in all regions...

Unemployment rates have dropped in all regions of the Commonwealth. The Greater Boston region has maintained a consistently low unemployment rate relative to the other regions. The Berkshire and Cape and Islands regions have experienced consistently higher rates.

figure 3-7
Unemployment Rates by Region, 1997 to 2001



Source: Division of Employment and Training, ES-202

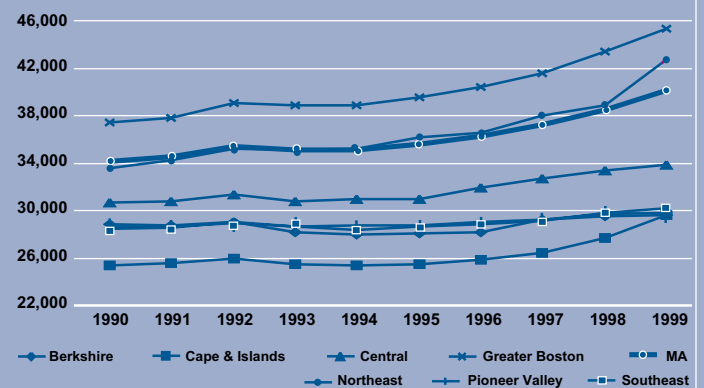
...but disparities in regional wages remain

Over the past decade, average real wages in Massachusetts have risen. However, this rise is primarily due to the steep increases in the Greater Boston and Northeast regions. The Central and Cape and Islands regions recorded modest gains while average real wages in the Berkshire, Pioneer Valley, and Southeast regions showed little improvement.

Disparity in household incomes across the Commonwealth

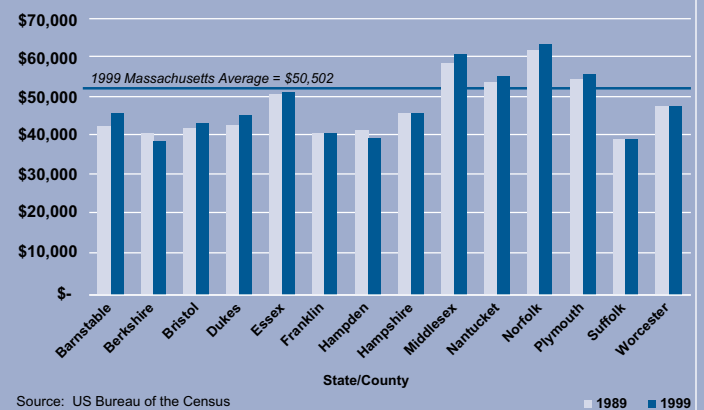
Uneven wage gains contribute to varying rates of change in household income. Between 1990 and 2000, real household incomes in Massachusetts increased 2 percent. Median

figure 3-8
Real Average Wages by Region, 1990 to 1999



Source: Division of Employment and Training, ES-202

figure 3-9
Real Median Household Income, by County



Source: US Bureau of the Census

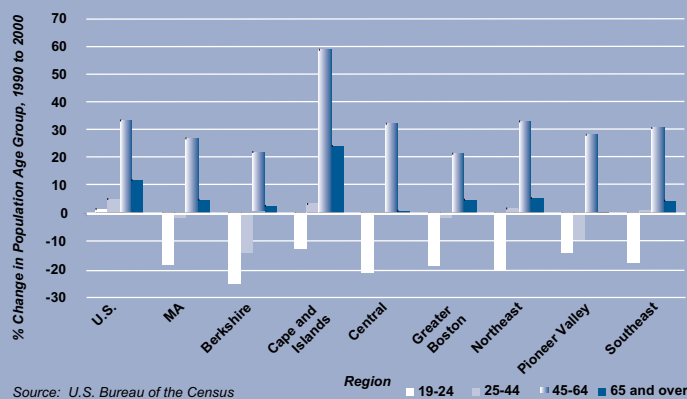
household income in Barnstable, Bristol, Dukes, and Middlesex counties experienced growth rates exceeding the state average. In contrast, median household income in Berkshire, Hampden, Suffolk, and Worcester actually declined.

Demographic changes in all regions suggest workforce challenges

All the regions experienced a decline in the 19-24 age group. Three regions experienced modest growth in the 25-44 age group. Declines in this group occurred in four regions, most notably in the Pioneer Valley and the Berkshires.

These patterns point to a shortage of young people in all regions of the state. Apart from implications for the size of the future workforce, this trend has negative implications for the future health of entrepreneurship in Massachusetts. A study by the Global Entrepreneurship Monitor (GEM) notes that

figure 3-10
Population Change by
Age Group US and Massachusetts

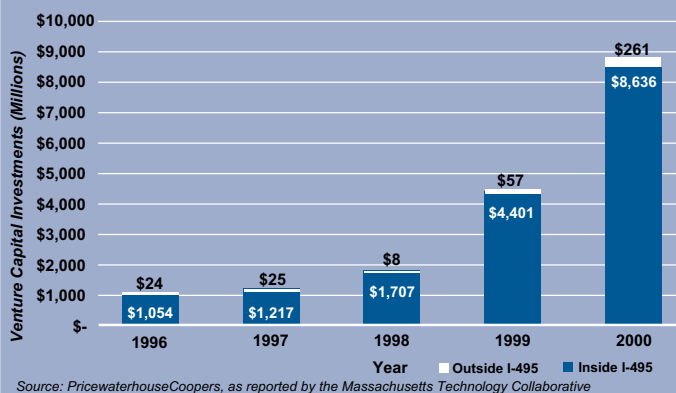


entrepreneurship activity is highest in the 25 – 44 age group (see Chapter 4, footnote 1).

Venture investment remains concentrated in the Greater Boston region

The preponderance of venture capital investment has gone to firms inside Interstate 495. While this highlights important regional specialization, growing knowledge-based export clusters in all regions would benefit from increased investment throughout the Commonwealth.

figure 3-11
Venture capital investments in Massachusetts,
inside and outside Interstate 495



Goal: Broad Economic Opportunity

The authors of *Choosing to Compete* noted that certain geographic areas of the Commonwealth would require exceptional job creation measures. These areas did not benefit from the prosperity created by prior economic booms and the human capital and physical assets in these areas remained underutilized. The strategy outlined in *Choosing to Compete* called for the state government to target job creation incentives in economically distressed areas by promoting private investment, providing technical and job training assistance, improving infrastructure, providing special assistance to minority owned enterprises, and improving basic education.

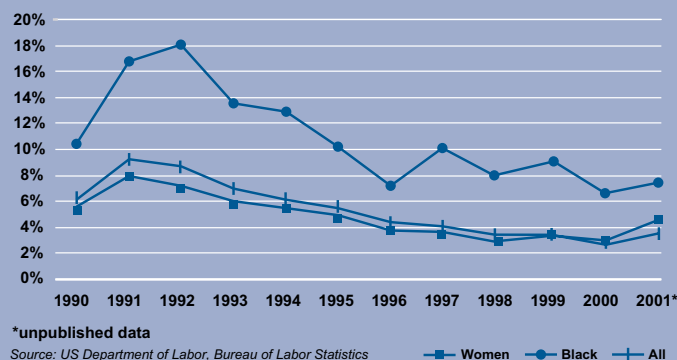
Minority unemployment rates declined

Over the last decade, unemployment figures dropped statewide and for women and Black residents.

The unemployment rate for women has been consistently below the statewide average. Between 1991 and 2001, the unemployment rate for Black residents has been consistently above the statewide average. Unemployment has dropped 53 percent statewide and 60 percent for women. One disturbing finding is that unemployment among Black residents increased from 1996 to 1997 before recovering slightly in 1998, meaning that fewer Blacks took part in the economic boom of the late 1990s.

(Continued on next page)

figure 3-12
Statewide unemployment rates
for women and black residents



Goal: Broad Economic Opportunity (continued)

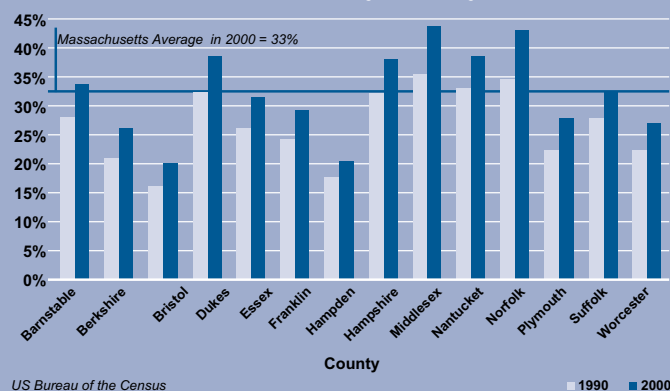
Unemployment in cities and regions remains relatively high

Many of the Commonwealth's cities continued to experience above-average unemployment rates. In 1993, three cities reported unemployment rates 50 percent higher than the statewide average of 6.9 percent: Fall River, Lawrence, and New Bedford. By 2000, the Commonwealth's annual average rate of unemployment fell to 2.6 percent. However, Fall River, Fitchburg, Lawrence, New Bedford, and Springfield experienced unemployment rates that were at least 50 percent higher during that year.

Progress on improving educational attainment was uneven

In 2000, over 33 percent of the Commonwealth's population aged 25 or more held a college degree, an improvement of 6 percentage points over 1990 levels. All counties in the state experienced an increase in the number of adults holding a BA/BS degree or more. Two counties, Middlesex and Norfolk, posted the largest rates of increase. These counties have shares of adult degree holders exceeding 40 percent. Five counties, Hampden, Bristol, Worcester, Suffolk, and Franklin, posted rates of increase that lagged behind the statewide averages. Four of these counties have shares of adult degree holders below 30 percent.

figure 3-13

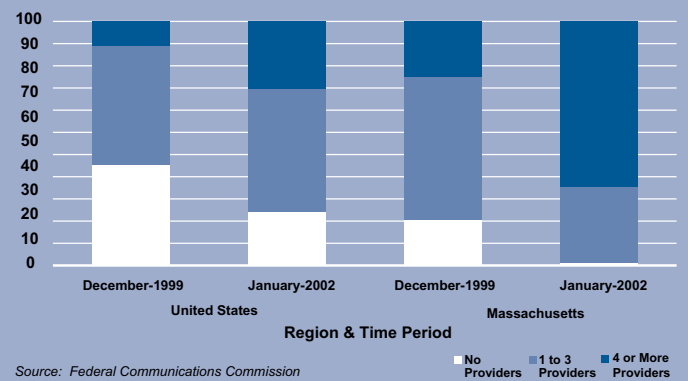
Share of Adult Residents with BA/BS Education or More, by County**Broadband access is critical to promoting broad economic opportunity**

Broadband, or high-speed Internet connectivity, has emerged as a fundamental component of the Commonwealth's economic infrastructure. Many Massachusetts communities lack access to affordable alternatives, such as cable modem or digital subscriber line (DSL) service.

Market forces have placed affordable broadband options primarily in our densely populated and more affluent communities. Large businesses can also get broadband connectivity virtually anywhere in the Commonwealth. However, rural businesses and individuals, as well as smaller businesses, field offices, and individuals in less affluent communities, often lack access to affordable broadband options.

In an economy increasingly based on information and speed, the lack of affordable broadband alternatives puts such individuals and small businesses at a significant competitive disadvantage.

figure 3-14

Share of All Zip Codes Served by High-Speed Internet Service Providers, by Region and Number of Providers

► **Broad economic opportunity** - Economic development cannot focus on narrow indicators, but must ensure that the benefits of economic development are widely and deeply spread among all citizens of the Commonwealth. Particular emphasis must be placed on the challenges confronted by minority populations in certain cities and regions. This includes access to financial and educational opportunities, as well as special attention to the “digital divide” and other barriers limiting participation in the emerging networked economy.

Performance Indicators: Employment levels, employment growth, unemployment rates, and per capita income are the standards across different population groups. Measurements for educational opportunity and the size and nature of the digital divide should also be included as indicators of broad economic opportunity.

► **Environmental sustainability** - The impact of economic development on the environment must inform all aspects of development planning, from technology infrastructure issues to transportation, land use planning, and affordable housing.⁵

Performance Indicators: Measures of environmental systems, environmental stresses and risks, human vulnerability to environmental impacts, social and institutional capacities, and regional stewardship.

► **Healthy and safe citizens** - The physical well being of citizens is a central responsibility of the State, particularly in the wake of the tragic events of September 11. This includes the availability of top health services, homeland security, adequate health insurance for all citizens, crime prevention resources, and measures to mitigate public health and environmental risks.

Performance Indicators: Measures include the percent of uninsured individuals and families, the cost of insurance to individuals, small businesses, and corporations; hospital inpatient and outpatient facilities; police and emergency personnel and resources; crime statistics; environmental risk assessments; and a strategic response to Commonwealth security.

► **Strong civic culture** - Social capital refers to the norms and networks that people can draw upon to solve common problems. Networks of civic engagement, such as neighborhood associations, sports clubs, and cooperatives, are an essential form of social capital. These networks have value, as they foster reciprocity and trustworthiness. In doing so, social capital contributes to quality of life and the productivity of our citizens.⁶ Massachusetts must continue to place a high priority on building “social capital” within the State, facilitating formal and informal connections between its citizens.

Performance Indicators: Voter turnout in national, state, and local elections; levels of voluntarism; numbers, types, and sizes of community meetings; number of charitable and non-profit service organizations, and community-building organizations (i.e. community newspapers).⁷

Approaching economic development with the central goal of promoting a high quality of life for all citizens in Massachusetts provides the necessary focus for a new strategic framework that will help the Commonwealth grow sustainably and provide an opportunity for all our regions and communities to participate in and benefit from this growth. The following chapter presents a framework designed for use by public and private sector leaders to help maintain and improve the economic competitiveness of their regions and to extend economic opportunity to all citizens of the Commonwealth.

⁵ Indicators taken from “*Pilot Environmental Sustainability Index: An Initiative of the Global Leaders for Tomorrow Task Force*,” World Economic Forum, January 2000. The “Index” was developed as a collaborative effort between the Yale Center for Environmental Earth Science Information Network (CIESIN) of Columbia University. The Index is meant to serve as a corollary to Gross Domestic Product and to provide countries with relative comparative measures of economic development and environmental sustainability. A similar Index could be developed to measure U.S. State progress towards environmentally sound development policies.

⁶ Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community*. Simon and Schuster, 2000. See Chapter 1 for a review of social capital.

⁷ Ibid. Note that several of these indicators are the result of survey instruments, while others come from selected data sources.

Goal: A High Quality of Life

Massachusetts has many elements that contribute to a good quality of life: historic landmarks, natural resources, excellent universities and medical centers, and world class social and cultural institutions. It is important to ensure the health and vibrancy of all of these elements, while also enhancing the economic competitiveness of the state. *Choosing to Compete* sought to minimize potential conflict between economic and non-economic goals. There are a number of strategies to do this, such as the development of regulatory strategies that de-emphasize command and control approaches, the promotion of technologies that improve competitiveness and reduce pollution simultaneously, such as energy conservation and pollution reduction, and the improvement of the infrastructure base. Over the past decade there have been success stories in all of these categories.

Emphasizing a more collaborative approach to regulation

The Commonwealth has become more responsive to the needs of business since the publication of *Choosing to Compete*. There have been significant improvements in the drafting and enforcement of environmental regulations, improvements driven in part by greater input from the business community. Executive Order 384, issued by Governor Weld in 1996, led to the rewriting or removal of many regulations. These steps have made it easier to do business in Massachusetts and have improved the perception of the Commonwealth as a place to do business.

In 1995, the Department of Environmental Protection (DEP) switched its permit approval process from a command and control based structure to a project management based structure. Now companies that need multiple permits for a project have one point of contact at the DEP, which assists these companies through the approval process. In some permit categories, the agency has adopted a self-certification approach. These changes at the DEP have made the permit approval process clearer and more understandable. These improvements leave Massachusetts more competitive in attracting businesses while also preserving the environment and quality of life.

Energy technology and pollution reduction

Massachusetts has successfully reduced key air and water pollution problems. STEP, the Strategic Envirotechnology

figure 3-15

Pollutants Reduction in Massachusetts

Pollutant	Problems Caused	Trend Since 1990
Nitrogen Oxide (NOx)	Smog-Respiratory Problems	Down 27%
Volatile Organic Compounds (VOC's)	Smog	Down 26%
Carbon Monoxide (CO)	Affects heart, mental functions	Down 47%
Sulphur Dioxide (SO ₂)	Acid Rain- damage to forests, freshwater ecosystems, structures	Down 41%
Nitrogen Dioxide (NO ₂)	Smog, acid rain	Down 19%
Particulate Matter (PM-10)	Respiratory Problems	Down 15%
Lead (Pb)	Brain, Liver damage	Down to nearly undetectable levels

Source: DEP and EOEa

Partners, a joint program between of the EOEa and UMass, was established in 1994 to promote and stimulate private investment in environmental technology and encourage the development and deployment of innovative technologies that aid in environmental protection and resource conservation. STEP has provided assistance to more than 200 companies and technologies that have aided in the reduction of pollution in the Commonwealth.

Improvement of the infrastructure base

Massachusetts has made large investments to infrastructure improvements. Between 1991 and 1999, the Commonwealth has invested more than \$20 billion in rebuilding nearly half of the Commonwealth's aging infrastructure. During this period, the Commonwealth:

- Improved bridges. Reconstructed, renovated or repaired 1,337 municipal and state bridges managed by the Massachusetts Highway Department, or 30% of the Commonwealth's inventory.
- Increased investment in local infrastructure projects that support local business development. In 1999, the Commonwealth provided Public Works Economic Development (PWED) Grants to 73 cities and towns. PWED grant awards reached \$9.2 million during that year, significantly higher than the \$250,000 invested in 1992.
- Invested in our schools. Between 1991 and 1999, the Massachusetts Department of Education invested \$1.5 billion into 286 new construction or renovation projects.
- Enhanced our water infrastructure. The Massachusetts Water Resources Authority (MWRA) invested \$4.2 billion

in improving water and wastewater services in 60 cities and towns. Improvements have dramatically reduced pollution discharges into Boston Harbor and achieved compliance with federal regulation.

Investments have also resulted in the repair and replacement of water pipelines and the replacement of open storage reservoirs to protect treated water from contamination.⁸

Yet significant challenges remain. Massachusetts has \$4.5 billion in authorized transportation infrastructure projects, against a bond cap of \$513 million. Also, the Commonwealth has, over the next five years, an estimated \$3.9 billion in unmet needs for drinking water and wastewater infrastructure improvements. Overall, in May 2001, the Commonwealth had \$8.8 billion in authorized and unissued bonds for capital projects, against an annual bond allotment capped at \$1 billion.⁸

The New Challenge: Sprawl

The Commonwealth has made significant strides in improving its quality of life. Sprawl, or the expansion of new development, poses a new challenge. Figure 3-16 shows growth in developed land and housing units outpacing population growth. This pattern has shifted our population increasingly to areas with limited infrastructure. The resulting congestion, infrastructure overload, and environmental degradation threaten our quality of life.

In the eight years from 1991 – 1999, Massachusetts experienced an 11 percent increase in vehicle miles traveled. By comparison, our population grew only 5.5 percent between the census years, 1990-2000. This indicates greater reliance on the automobile and increased pressure to “sprawl.” One way to prevent sprawl is through the protection of open spaces. Since 1990, the state has protected 200,000 acres of open space and plans to protect another 100,000 acres by 2010.¹⁰ Brownfields projects and other redevelopment efforts will also help revitalize the Commonwealth’s urban spaces and reduce sprawl. Since 1993, initiatives to clean up brownfield sites have raised the number placed into service from about 100 per year to about 1,000 per year.¹¹

⁸ Massachusetts Executive Office of Administration and Finance, *Reconstructing Massachusetts*, January 2000.

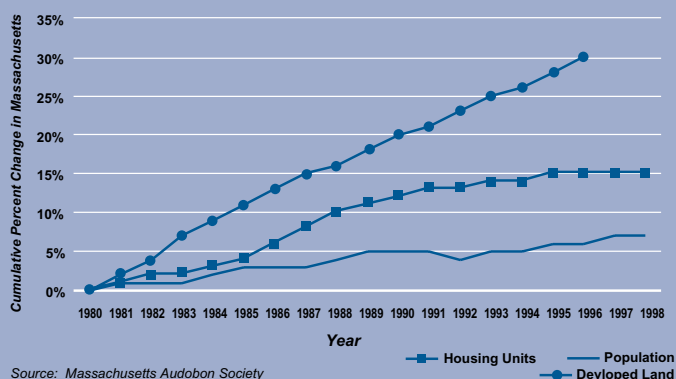
⁹ MassInsight Corporation, “The Case for Infrastructure Investment” *Competitive Issues Report*, May 2001.

¹⁰ Massachusetts Executive Office of Environmental Affairs, *The State of the Environment*, 2000 p. 134 and Massachusetts Executive Office of Administration and Finance, *Rebuilding Massachusetts*, June 2001.

¹¹ Massachusetts Executive Office of Environmental Affairs, *The State of the Environment*, 2000 p. 68

figure 3-16

Growth in Developed Land Exceeds Growth of Population and Housing



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Workforce Investment Board; Stefanie Picard, UMass Dartmouth; Rosemary Presnal, Massachusetts Manufacturing Extension Partnership; Mike Prior, Massachusetts Manufacturing Extension Partnership; Michael J. Rodrigues, Massachusetts House of Representatives; William Roth, Town of Fairhaven; Anthony Sapienza, Riverside Manufacturing Corp.; Richard L. Shafer, City of Taunton; Robin Smith, Bristol Community College; Stephen Smith, Southeastern Regional Planning & Economic Development District; Tobias Stapleton, International Trade Assistance Center; Dwight S. Stimson, Hstar Marine Transport System; David B. Sullivan, Massachusetts House of Representatives; Donald Sullivan, Southeastern Regional Planning & Economic Development; Jim Sullivan, Small Business Development Center; Michael P. Sullivan, Massachusetts Small Business Development Center; Robert Sullivan, Tucker Anthony, Inc.; Shawna Sweeney, UMASS Dartmouth; Michael Taylor, Maritime International, Inc.; David Tibbetts, Merrimack Valley Economic Development Council; Donna Vandini, Days Inn Middleboro; Tony Vieira, UMASS Dartmouth; Donald Walsh, NSTAR; Stewart P. Washburn, Management Consultant; and David Wojnar, Town of Acushnet.

Berkshire Forum: November 20, 2001

Special thanks to Berkshire Community College for hosting this event in particular: Barbara Vinari, President.

Thank you to the participants including: Thomas Aceto, Mass College of Liberal Arts; Douglass Ball, Lenox Savings Bank; Dona Beck, FirstMass; David R. Bissaillon, Berkshire Chamber of Commerce; Bill Carey, Berkshire Eagle; Patrick A. Carnevale, Governor's Office; Edward A. Chagnon, Bardwell Bowlby & Karam Insurance; Claudine Chavanne, Workforce Development Consultant; Stephen M. Coyne, Massachusetts Manufacturing Extension Partnership; Ann W. Dobrowolski, City of Pittsfield; Chuck Dooley, Western Massachusetts Electric Company; Paul Dowd, Western Massachusetts Electric Company; Donald R. Dubendorf, Grinnell, Dubendorf & Smith LLP; Henry Ervin, Pittsfield Cooperative Bank; Michael Esmond, Massachusetts Alliance for Economic Development; Steve Fogel, Berkshire Enterprises/BCC; Peter Fohlin, Town of Williamstown; Tim Geller, Southern Berkshire Housing Coalition; Keith E. Girouard, Community Development Corporation of South Berkshire; Rosemary Jette, Jette Communications; Cynthia Kadel, Sunshine Ventures Computer Consulting; David L. Kalib, Berkshire Life Insurance Co. of America; Nathaniel Karns, Berkshire County Regional Planning Commission; Ellen Kennedy, Massachusetts College of Liberal Arts; Mary Kozik, Office of Representative Peter Larkin; Scott Latvala, Steinerfilm Inc.; Lisa Leary, Eastover Resort, Inc.; Vincent Lee, Otis Planning Board; Alan Marden,

City of North Adams;; Douglas McNally, Taconic High School; Ann Mintz, Berkshire Museum; Susan Mongue, Massachusetts Small Business Development Center; Monica Montferret, Town of Hinsdale; Gerry Murray, KB Toys; Michael Murray, Hi-Tech Mold & Tool; Mary Nash; Kathy Orlando, Sheffield Land Trust; Helen Ouellette, Williams College; Nancy Ovitsky, Massachusetts College of Liberal Arts; John Renzi, Graphic Impact Signs, Inc.; Richard Rilla, Berkshire Plastics Network; Susan Sauve, Shakespeare and Company; Vicky Singer, Berkshire Enterprises; Ray Smith, Berkshire Visitors Bureau; Suzanne Stinson, Northern Berkshire Health Systems/North Adams Regional Hospital; Bradley C. Svrluga, Berkshire Capital Investors; Robert B. Trask, Country Curtains; Richard Vinette, Lee Community Development Corporation; William R. Wilson, Berkshire Visitors Bureau; and Ticki Winsor, Eastover Resort, Inc.

Greater Boston Forum: November 28, 2001

Special thanks to the University of Massachusetts Boston for hosting this event in particular: Dr. Jo Ann Gora, Chancellor; and John Ciccarelli, Assistant to the Chancellor for Economic Development.

Thank you to the participants including: Dana Ansel, MassINC.; Pedro Arce, Economic Development Planner; Jay Ash, City of Chelsea; Arthur Atkins, State Office of Minority, Women and Business Assistance; David Bancroft, MassDevelopment; Thomas J. Barry, Mass Business Development Corporation; Elmer Bartels, Massachusetts Rehabilitation Commission; Beate Becker, Creative Economy Initiative; Milton Benjamin, Massachusetts Community Development Finance Corporation; Deborah D. Blumer, Massachusetts House of Representatives; Deborah Boisvert, University of Massachusetts Boston; Frederick Breimyer, State Street Corporation; Nancy Brown, Metro North Regional Employment Board; Laura Canter, MassDevelopment; Jennifer Capuano, Chelsea Center Recycling & Economic Development; Anthony Caruso, Caruso Enterprises; Thomas Chmura, University of Massachusetts; Philip Conroy, Mount Ida College; Joy Conway, Greater Boston Real Estate Board; Toni Coyne Hall, Massachusetts Department of Housing & Community Development; Daniel Daly, Daly & Company, Inc.; Michael Dimino, Chelsea Center for Recycling & Economic Development; Kris Erickson, Mystic Valley Development Commission/TeleCom City; Richard Foley, Sarnafil Inc.; Christopher A. Fox, MassINC; Katherine Galaitis, University of Massachusetts Boston CCDE; Susan Gately, Massachusetts College of Art; Lisa Gaudette, 128 Business Council; Michael Grace, City of Boston; Paul Halkiotis, Town of Weymouth; Susan Hannon, Boston Redevelopment Authority; Antonio Harris, Massachusetts Rehabilitation Commission; Michael P. Hogan, MassDevelopment; Bruce E.

Holbein, Massachusetts Software & Internet Council; Susan Houston, Massachusetts Alliance for Economic Development; Mike Kalfopoulos, Massachusetts Manufacturing Extension Partnership; Chris Kealy, MassDevelopment; Mary Kelley, Massachusetts Cultural Council; Thomas Kershaw, Massachusetts Visitors Industry Council; Soosie Lazenby, Mass Sports Partnership; David Lewis, Commonwealth of Massachusetts; Alan Macdonald, Massachusetts Business Roundtable; Elaine Madden, City of Cambridge; Julie McConchie, North of Boston Convention & Visitors Bureau; John McKiernan, SBDC Boston College; Aracelis Mercardo, Boston Redevelopment Authority; Randall Moore, Northeastern University; William Nigreen, Arts & Business Council of Greater Boston; Joseph O'Garro, Massachusetts Business Development Corporation; John O'Keefe, Massachusetts Highway Department; James A. Owens, National Capital Resources; Amy Perlmutter, Chelsea Center Recycling & Economic Development; Finley Perry, Builders Association of Greater Boston; David Polatin, Small Business Association; Jeff Ritter, Town of Wayland; Joseph Rivers, SBDC University of Massachusetts; Maureen Rogers, Neponset Valley Chamber of Commerce; Luis Rosero, Boston Redevelopment Authority; Beth Siegel, Mt. Auburn Associates; Katherine H. Sloan, Massachusetts College of Art; Margaret Somer, Small Business Development Center - University of Massachusetts; David Soule, Metropolitan Area Planning Council; Donald Steinbrecher, Massachusetts Telecommunications Council; Mark S. Sternman, Office of U.S. Senator Kerry; Karen Sutherland, Small Business Development Center, University of Massachusetts; John Sutich, Massachusetts Business Roundtable; Jo-An Thomas, Advanced Center for Technology & Training; Jo Anne Thompson, State Office of Minority and Women Business Assistance; Joseph P. Walsh, City of Salem; Les Warren, Bunker Hill Community College; and Joseph Zukowski, Verizon.

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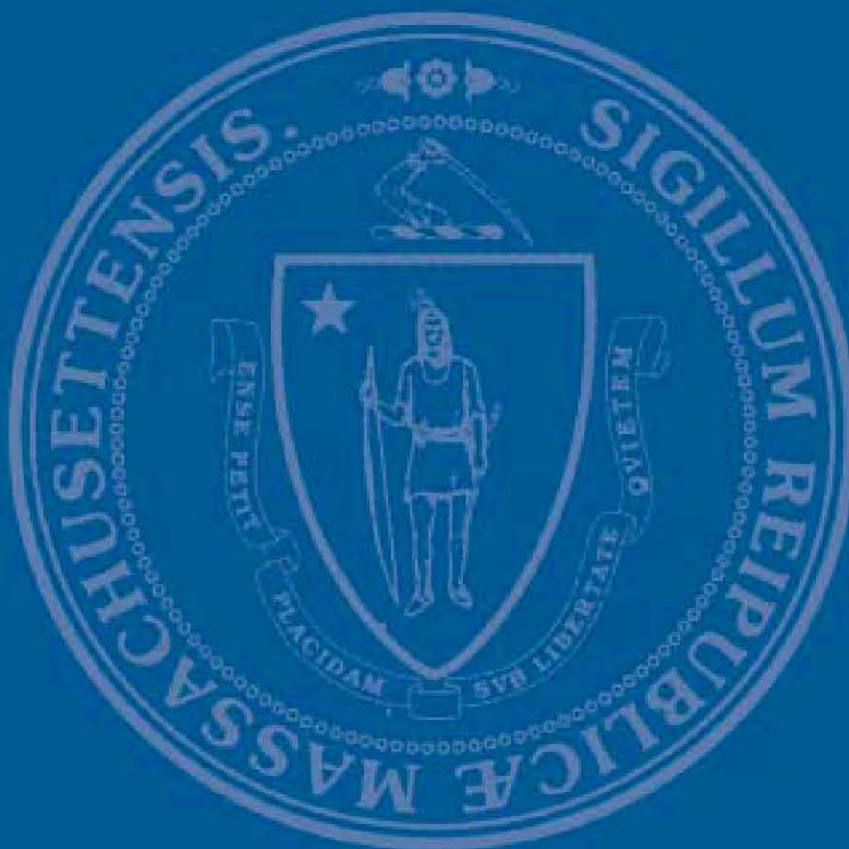
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